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NATIONAL ACCOUNTS AND BALANCES: SYSTEM OF NATIONAL ACCOUNTS (SNA)

Progress report on the revision of the System of National Accounts (SNA)

Report of the Secretary-General

SUMMARY

The present report is a follow-up to a previous progress report on the revision of the System of National Accounts (SNA) presented to the Statistical Commission at its twenty-fifth session in 1989. It is divided into four sections. Section I provides information on the past and future work programme on the revision of SNA. Section II describes the main outstanding issues and the review of the revised SNA features by the regional commissions. Section III explains the concerns, needs and requirements for a succesful implementation of SNA. Section IV includes points for discussion by the present session of the Commission.

* E/CN.3/1991/1 and Corr.1.

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INTRODUCTION

1. At its twenty-fifth session, the Statistical Commission expressed overall satisfaction with the progress made in implementing the review programme of the System of National Accounts (SNA) since its twenty-fourth session. It noted that that progress was largely due to the efforts of the Inter-Secretariat Working Group on National Accounts, which is composed of the Statistical Office of the United Nations Secretariat and the statistical offices of the International Monetary Fund (IMF), the Organisation for Economic Co-operation and Development (OECD), the European Communities (EUROSTAT), the World Bank and the United Nations regional commissions. It was pleased to note the participation of the regional commissions in the Working Group, the increasing involvement of developing countries in the review process and the participation of some developed countries in meetings of the regional commissions in the developing regions.

2. The Commission reaffirmed the original objectives of the SNA review programme: simplification and clarification, further harmonization with other related systems of statistics and updating the system to fit new circumstances. The Commission commended the preliminary draft of the selected chapters of the revised SNA as prepared by a consultant. It was considered to be a good attempt at clarifying some of the SNA concepts. It agreed that the revised SNA should contain an accounting framework and a glossary and that for the further elaboration of the accounting framework, the Statistical Office of the United Nations Secretariat would be assisted by another consultant.

3. The Commission noted that the work on the SNA/System of Balances of the National Economy (MPS) links had entered a new phase and agreed that the main objective in that area was the substantial progress in the convergence of SNA and MPS, with the ultimate goal of integrating the two systems. The Commission also considered it essential that handbooks be prepared with the active involvement of developing countries, to come out at the same time as the revised SNA. It highlighted the importance of satellite accounts, in particular, those related to the environment. The Commission endorsed a revised timetable for the revised SNA, noted as critical the need to mobilize funds required for a timely completion of the programme, and once again assigned highest priority to that work programme.

I. SNA REVIEW PROGRAMME

A. Work programme 1989-1990

1. Management of programme

(a) Role of the Inter-Secretariat Working Group on National Accounts

4. The planning and co-ordination of the SNA review work programme in 1989 and 1990 has continued to be directed by the Inter-Secretariat Working Group on National Accounts as mandated by the Statistical Commission. Representatives of the member organizations of the Working Group have met on an average of four to

five times a year. Within its mandate, the Working Group has agreed on various actions with regard to the preliminary draft chapters of the revised SNA and the handbooks, the elaboration of special studies, regional and expert group meetings on the SNA, the timetable, the use of consultancy funds and other organizational matters.

5. At a meeting in New York on 20 September 1989, there was widespread concern among the members of the Working Group that there was insufficient time before the twenty-sixth session of the Statistical Commission to resolve a number of outstanding methodological issues (most of which were unforeseen and arose late in the revision), to complete the full draft of the revised SNA (which took more time than expected), to review the draft and to ensure that the final draft took into account all the comments received. The Working Group noted that these concerns were also reflected in the views of many of the core group of experts and in the report of the thirteenth session of the Working Group on International Statistical Programmmes and Co-ordination of the Statistical Commission. Accordingly, the Inter-Secretariat Working Group on National Accounts unanimously recommended that the draft of the revised SNA be submitted to the twenty-sixth session of the Statistical Commission in 1991 as an interim draft for information and comments but not for adoption. It is planned that the twenty-seventh session of the Commission in 1993 will consider the draft for adoption.

6. A special meeting of the Inter-Secretariat Working Group on National Accounts was held in Vienna on 17 June 1990 to give further momentum to the ongoing process of the revision of the SNA, which had arrived at a critical stage. All organizations represented stressed the importance of the SNA revision process and their commitment to seeing it through to a successful completion. Among other important aspects of the process, the meeting discussed an offer by the United States to make available the services of Carol Carson, from the Bureau of Economic Analysis, as a contribution in kind to the SNA review process. Representatives of all organizations welcomed the offered contribution, noting that as a member of the core group of experts, Ms. Carson could be particularly instrumental in (a) giving substantive support to the Working Group, (b) co-ordinating work on outstanding issues and (c) assisting in the integration of the text of the chapters and annexes of the revised SNA. Subsequent discussion elaborated her functions to include the improvement of communication between Working Group member organizations as to the work; the setting and monitoring deadlines for papers, comments and discussion; and the scheduling and identification of funds needed for the completion of the revision process.

(b) Funding for the SNA review

7. The Statistical Office of the United Nations Secretariat has continued to follow the recommendations of the Statistical Commission to treat the SNA review as one of the highest priority activities in its work programme. As a result, major portions of the regular budget consultancy, expert group and travel funds available to the Office have been allocated to this work. In addition, since the Statistical Commission at its twenty-fifth session noted as critical the need to mobilize funds for a timely completion of the SNA review, the Office intensified its efforts in raising extrabudgetary funds with very good results.

8. As mentioned in the progress report presented to the twenty-fifth session of the Statistical Commission (E/CN.3/1989/4), in 1988 the Statistical Office of the United Nations Secretariat and EUROSTAT provided the funds through the International Association for Research in Income and Wealth (IARIW) to engage a consultant to draft the revised SNA. In 1989 the Statistical Office, having exhausted its full 1988-1989 regular budget consultancy fund in this consultancy, obtained additional funds from the Office of Programme Planning, Budget and Finance, Department of Administration and Management, to engage another consultant to further elaborate the SNA accounting framework and to hold a third expert group meeting on SNA Co-ordination. It should be noted that, although only one meeting of the Expert Group on SNA Co-ordination had been planned for 1989, actually three meetings were held: one in Luxembourg in January 1989 financed by EUROSTAT, and two in New York in the summer of 1989 financed by the Statistical Office of the United Nations Secretariat. Also, with the help of funds donated by two private foundations, the Statistical Office engaged a consultant to prepare the first draft of the handbook on environmental accounting.

9. With the generous co-operation and support of a number of organizations and countries, many of the most important shortcomings encountered due to the lack of resources have been considerably mitigated. Several countries have helped to finance some of the most critical SNA review activities by either donating funds through IARIW, directly sponsoring meetings of the regional commissions of the developing regions or financing the time and travel of some of the participants of the expert group on SNA Co-ordination.

10. In addition to the above-mentioned financial contributions, the contributions of experience and time by the experts and staff of the member organizations of the Inter-Secretariat Working Group on National Accounts should be noted. Many weeks were spent each year in preparing for and participating in expert group and regional meetings.

2. Conceptual development of the SNA

11. In May 1990, as agreed by the Inter-Secretariat Working Group on National Accounts, the Statistical Office of the United Nations Secretariat distributed a preliminary version of the draft revised SNA (available only in English) for comments to all national statistical offices and 180 national accounts experts throughout the world. A document prepared by the Working Group, entitled "SNA review issues", was also distributed. This document provides a more complete picture of the main features and changes of the revised system and highlights specific issues that were discussed in the expert group meetings, distinguishing those on which specific conclusions were reached from those that are still unresolved. The document was prepared as a basis for the discussion in the regional meetings and, for that purpose, was unofficially translated into French, Spanish and Arabic.

12. At its present session, the Commission has before it a somewhat expanded and further revised draft of the SNA. 1/ This material should be considered as work in progress, since it has not all been reviewed by the Expert Group on SNA

Co-ordination, and where reviewed, some of the material does not incorporate all the recommended changes.

13. During the review process, papers have been prepared by members of the expert groups and staff of the member organizations of the Working Group to guide the discussion of conceptual issues. These papers include, among other topics: SNA accounting structure reconsidered; reconciliation of SNA and OECD-IMF tax classification; from SNA to environmental accounting; recommendations concerning the distinction between market and non-market in SNA; treatment of research and development expenditures in SNA; mineral exploration; intellectual property and related rights in economic accounts; imputation for financial intermediation service charges; the treatment of insurance; the concept of income and the distinction between current and capital items; classification of financial assets and liabilitites; new financial instruments and the balance of payments; the flow-of-funds accounts, the SNA and the developing countries; treatment of statistical units in the latest drafts of SNA and the introduction to ISIC; introducing the concept of total consumption into the SNA; relationships between cash and accrual; changes in stocks and holding gains; cross-referencing the new SNA; social accounting matrices, income distribution and the SNA review; the residency of technical assistance personnel; three topics concerning the household sector: criteria to distinguish between employees and non-employees outworkers, classification of households units and criteria to distinguish between formal and informal. It should be noted that many of the resulting discussions are already embodied in the draft of the revised SNA. Some issues are still outstanding, as indicated in section II.A below, and many have been commented on at meetings of the regional commissions, as indicated in section II.B below.

3. Meetings

(a) Expert group meetings

14. Since the twenty-fifth session of the Statistical Commission in February 1989, three expert group meetings have taken place on the revision of the SNA. Two were meetings of the Expert Group on SNA Co-ordination, and one was a meeting of the Expert Group on Reconciliation of SNA and MPS Standards on National Accounting. The main functions of the Expert Group on SNA Co-ordination are to review the draft chapters and to discuss and make recommendations with respect to outstanding issues and any divergent views expressed by different expert group meetings. This expert group consists of a core of five national accounts experts from Chile, France, Federal Republic of Germany, India and the United States, who have participated in their personal capacity in all subject-field expert group meetings in order to insure consistency and continuity in decisions in different fields. In addition, the expert group includes eight other experts, from Argentina, India, Netherlands, Madagascar, the United Kingdom, the United States, the Soviet Union and Zimbabwe, who have also participated in their personal capacity in some of the subject-matter expert group meetings. The expert group also includes representatives from the member organizations of the Inter-Secretariat Working Group on National Accounts. The following meetings were held:

(a) The Second Expert Group Meeting on SNA Co-ordination, sponsored by the Statistical Office of the United Nations Secretariat, was held in New York, from 12 to 21 July 1989. 2/ An expert from Canada was invited to participate at a half-day session devoted to the relation between SNA and the International Standard Industrial Classification of All Economic Activities (ISIC) statistical units. This meeting reviewed the outline of the revised SNA and five of the preliminary draft chapters. In reviewing chapter II, "An Overview of the System", the Group felt there was a need to link the accounts and tables with the overall system and to develop a matrix presentation in addition to the T-accounts. There was general agreement that the draft chapters available so far substantially fulfil the goal of clarification but that the text should be augmented by concise definitions. It was agreed that the consultants would revise and reformulate those sections where clear recommendations were made by the participants in the meeting;

(b) The Third Expert Group Meeting on SNA Co-ordination, sponsored by the Statistical Office of the United Nations Secretariat, was held in New York, from 13 to 22 September 1989, 3/ as a continuation of the July meeting. This meeting focused on issues reflected in eight of the remaining chapters. The September meeting provided instructions regarding the revisions of the SNA chapters that it discussed, similar to those that were made during the July meeting;

(c) The Expert Group Meeting on Reconciliation of SNA and MPS Standards on National Accounting, sponsored by the Statistical Office of the United Nations Secretariat in co-operation with the State Committee on Statistics of the Soviet Union, the Statistical Division of the Council of Mutual Economic Assistance, the Soviet Ministry of External Economic Relations and the Economic Commission for Europe, was held in Moscow from 4 to 9 December 1989. 4/ In addition to several of the experts members of the SNA Co-ordinating Group, experts from the following countries participated: Bulgaria, China, Cuba, Czechoslovakia, Ecuador, Finland, Hungary, India and the Soviet Union. The objective of the meeting was to examine the possibilities for improving harmonization between the SNA and MPS and how the SNA and MPS could be further integrated, that is, brought closer together theoretically and practically. The views and conclusions of this meeting are presented to the Commission in a separate report. 4/

(b) Regional meetings

15. Several regional meetings have also taken place since the last session of the Statistical Commission:

(a) The five regional commissions of the United Nations held regional meetings to review and discuss the general orientation of the preliminary draft of the revised SNA; its main features, changes as compared with the 1968 SNA and outstanding issues; topics of special concern to the region; and aspects related to the implementation of the SNA. These meetings were organized as recommended by the Statistical Commission at its twenty-fifth session, and the views and conclusions of each region are presented to the twenty-sixth session of the Commission in separate reports. The following regional meetings were held:

(i) Economic Commission for Africa (ECA), Addis Ababa from 16 to 25 July 1990; 5/

(ii) Economic Commission for Europe (ECE), Geneva from 10 to 13 September 1990. 6/ ECE had also organized a meeting from 16 to 19 May 1989, where experts in the SNA and from economies in transition developed a joint work programmme in preparation for the Expert Group Meeting on the Reconciliation of SNA and MPS Standards on National Accounting;

(iii) Economic Commission for Latin America and the Caribbean (ECLAC), Rio de Janeiro from 18 to 28 September 1990; 7/

(iv) Economic and Social Commission for Asia and the Pacific (ESCAP), for countries of the Asian subregion, in Bangkok from 15 to 24 August 1990, and for countries of the Pacific subregion, in Suva from 29 August to 7 September 1990; 8/

(v) Economic and Social Commission for Western Asia, (ESCWA), Tunis from 11 to 15 June 1990. 9/ The ESCWA meeting on SNA, which was scheduled to take place in Kuwait from 9 to 16 October 1990, was cancelled due to the Gulf crisis. Therefore, it was decided that the report of the Arab National Accounts Expert Group Meeting, that was convened in Tunis in June 1990 to discuss the revised SNA in preparation for the October meeting, would be presented to the Statistical Commission as representing the views of the region;

(b) OECD organized two meetings of national accounts experts in Paris. One meeting, in June 1989, reviewed the progress of the SNA revision. Another meeting from 3 to 6 July 1990, discussed several issues related to the preliminary draft chapters of the revised SNA;

(c) EUROSTAT organized two meetings of the Working Party on National Accounts in Luxembourg. One meeting from 3 to 5 April 1989, was in preparation for the Expert Group Meetings on SNA Co-ordination. Another meeting from 16 to 17 November 1989, discussed the conclusions of the two expert group meetings on SNA Co-ordination and several other issues related to the revision of SNA and the European System of Integrated Economic Accounts (ESA);

(d) The Council for Mutual Economic Assistance (CMEA) organized three meetings to discuss the methodological problems of calculating gross domestic product (GDP) and related estimates in countries in transition: in Prague from 13 to 18 March 1989; in Budapest from 19 to 20 October 1989; and in Moscow from 11 to 14 December 1989.

B. Future work programme 1991-1993 10/

1. Meetings

(a) Expert Group on SNA Co-ordination

16. The following meetings of the Expert Group on SNA Co-ordination are scheduled for the remainder of the SNA review programme:

(a) The Fourth Expert Group Meeting on SNA Co-ordination, to be held in Washington, D.C. from 3 to 7 December 1990, will be sponsored by the Statistical Office of the United Nations Secretariat and hosted by the World Bank. Its main objective will be to discuss and resolve outstanding issues;

(b) The Fifth Expert Group Meeting on SNA Co-ordination, to be held in April 1991, will review the comments received from the 1990 round of regional commission meetings and the twenty-sixth session of the Statistical Commission. It will also review those chapters and annexes not previously discussed by the expert group and any remaining outstanding issues;

(c) The Sixth Expert Group Meeting on SNA Co-ordination, to be held in early 1992, will review and discuss the October 1991 revised draft of the SNA, which will be the first draft to include all chapters and annexes and incorporate all the comments received from the regional commissions, the Statistical Commission and the Expert Group on SNA Co-ordination. At this meeting, the comments of the interregional meeting planned for the beginning of 1992 will also be reviewed (see section I.B.1 (b) below).

(b) Interregional and regional meetings

17. Based on experience drawn from the regional commissions meetings in 1990, the Inter-Secretariat Working Group on National Accounts has considered the possibility that an interregional meeting should be held at the beginning of 1992 to review and discuss the revised and complete draft SNA. In addition to representatives from countries in all regions, the experts participating in the meetings on SNA co-ordination would be invited to attend the meeting.

18. This interregional meeting could be supplemented by individual meetings of the regional commissions, depending on the availability of resources. These meetings might focus on implementation of the revised SNA. For example, ECE has already included in its programme of work for 1991-1992 a session of the Conference of European Statisticians on the implementation of the revised SNA and on special problems related to the region.

2. Revisions of SNA drafts and consultancies

19. Substantial work on the draft chapters and annexes of the revised SNA currently before the Statistical Commission will be necessary in order to incorporate the Commission's comments and recommendations as well as those from the

1989 expert group meetings on SNA co-ordination and from the meetings of the regional commissions. These revisions will require extensions of the earlier consultancy contracts. Also, other consultancies will be needed to solve the critical outstanding issues (see section II.A below) and to prepare an index, glossary and/or parallel text and other elements of the final publication.

20. The revisions will involve changes in and elaborations of the concepts and definitions now in the SNA draft. They will also include changes that are needed to integrate the accounts and tables with the text and to arrive at compatibility between the texts of chapters and annexes. Furthermore, it has been agreed that additional chapters and annexes need to be incorporated. The following additional chapters and/or annexes are either planned or already under preparation: accounting rules and transactions, population and employment, SNA matrix, and relations between SNA and balance of payments statistics and money and banking statistics.

3. Handbooks and compilation guides

21. In view of the importance of handbooks and related guides for the implementation of the revised SNA, the Working Group has reiterated that they should be published simultaneously with the revised SNA in 1993 and that they must be compatible with the system. There are seven handbooks presently at various stages of development, ranging from some for which outlines have been prepared to a few for which several chapters already are in draft:

(a) National accounts compilation and reconciliation;

(b) Household sector accounts;

(c) Enterprise accounts;

(d) Input-output tables;

(e) Accounting under inflationary circumstances;

(f) Application of the SNA in countries in transition;

(g) Environmental accounting.

22. In addition, there are a number of handbooks, including those on regional accounts, quarterly accounts and uses of accounts in planning and analysis, that are still just proposals even though some of them are of particular interest for certain regions. There is also a handbook on International Comparison Programme (ICP) methodology in preparation, which is linked closely to SNA and is further discussed in document E/CN.3/1991/17.

23. The Working Group agreed that the handbook on SNA application in countries in transition (previously referred to as SNA/MPS links) will receive high priority. Although it must be updated because of the rapidity of developments, an outline has

been prepared by two consultants. In addition, the Statistical Office of the United Nations Secretariat has hired a consultant to review the revised SNA draft to see where further explanation or adaptation would facilitate application of the SNA to transition economies.

24. The first draft of the handbook on environmental accounting has been completed by a consultant to the Statistical Office of the United Nations Secretariat, and shortly it will be circulated for comments. The proposed integrated economic and environmental accounting framework is partly a modification and partly an extension of the SNA. To gain experience concerning the implementation of the framework, one pilot project is presently being carried out by the Statistical Office in collaboration with the World Bank and the Statistical Office of Mexico. The results of this and possibly further country studies will form an important part of the handbook.

25. The Statistical Office of the United Nations Secretariat has completed the first draft of the handbook on input-output tables. Shortly, it will be circulated for comments. The Statistical Office has also prepared an outline for the handbook on national accounts compilation and reconciliation. The outline was circulated to the Working Group for comments, and the Statistical Office is presently working on the further elaboration of the outline into separate chapters.

26. The Statistical Office is exploring the possibilities of preparing a handbook on the household sector in co-operation with the United Nations Population Fund (UNFPA), which is interested in using household sector accounts to link economic statistics and population data. The intention is to include satellite accounts that would cover the wider household activities in the production boundary, the links between SNA and Social Accounting Matrices (SAMs) and questions regarding the informal sector. The World Bank has offered to support work on this handbook by making available materials that the Bank has developed in the course of its activities related to the Living Standards Measurements Study programme.

27. The handbook on enterprise accounts is becoming increasingly important in view of the institutional sector accounts emphasized by the revised SNA and also as an important tool for the application of the revised SNA in transition countries. For the preparation of the Handbook on accounting under inflationary circumstances which includes both constant prices accounting and inflation accounting, the Statistical Office of the United Nations is seeking assistance from developing countries experiencing this phenomena in its national accounting.

28. IMF is in the process or is planning to revise the manuals on balance of payments (BPM), money and banking statistics (MBS) and government finance statistics (GFS). These revised manuals will be supplemented by compilation guides that are very close in content to the handbook series on national accounting. Therefore, it will not be necessary for the Statistical Office of the United Nations Secretariat to develop handbooks in these areas.

4. Further funding for the SNA review

29. In view of the programme laid out above, the Inter-Secretariat Working Group on National Accounts has concluded that the remaining work on the SNA review programme will require more extensive substantive co-ordination and management support. In order for the revised SNA to be presented to the Statistical Commission in 1993 for adoption, and if work on a selection of handbooks is to proceed in parallel, it will be necessary to mobilize resources quickly from the member organizations of the Working Group and from other organizations, countries or foundations.

30. As indicated in subsection I.A.1 (b) above, the Statistical Office continues to attach the highest priority to this work programme and will seek the budgetary and extrabudgetary funds required for a timely and successful completion of the SNA review programme. EUROSTAT has offered to further support the SNA review process by funding one expert group meeting if needed and otherwise by providing additional funds for SNA consultancies. The other member organizations of the Working Group, which have also made substantial contributions to the SNA review process in the past, have already given indications of possible future funding commitments. For those organizations that will not be in a position to provide additional funds, they are being asked to rearrange their funding to place it where it is most critical in terms of scheduling and among various components of the overall project.

31. As already mentioned in subsection I.A (a) above, the United States Bureau of Economic Analysis has made available the services of Ms. Carson as a contribution in kind to the SNA review process. Her services have been committed for one year beginning June 1990.

32. The Statistical Office, on behalf of the Working Group, plans to send to selected countries a letter requesting funding for those parts of the programme for which there is presently no funding. These are mainly for consultancies in order to revise the text, review terminology, prepare an index, a glossary and/or parallel text and finance the development of a selection of handbooks. Further information on funds needed and requested will be provided in the report of the Secretary-General on updated information on the work of the Statistical Office of the United Nations Secretariat (E/CN.3/1991/30).

II. REPORT ON SNA SUBSTANTIVE ISSUES

A. Outstanding issues

33. Four issues that have system-wide implications require further detailed study before the SNA can be finalized. These are the treatment, coverage and valuation of assets; the links between SNA and environmental accounting; the adaptation of SNA to transition economies; and the proposed distinction in the SNA between market and non-market producers and products. There are some other outstanding issues, such as the treatment of multiple and, in particular, black and parallel market exchange rates.

(a) Assets

34. Some agreements have been reached with regard to assets. Balance sheets and reconciliation accounts, which were developed and incorporated in a separate publication, 11/ have been fully integrated with the sector accounts of the system. It is proposed that the 1968 asset boundary be extended in one direction and clarified in another. The extension (which is tentative, pending discussion of the related outstanding issues) concerns intangible assets. The intangible assets, which would be the result of production of services instead of goods, would include software, mineral exploration cost, research and development expenditures and literary-artistic work. There is also a need to clarify the treatment of a broad range of new financial instruments.

35. However, several outstanding aspects require further examination. First of all, there is the need to study in detail the ramifications of the incorporation of intangible assets on such 1968 SNA concepts as output, intermediate consumption, depreciation and other value-added components, capital formation, property income and acquisition of intangible assets. Also, the coverage of natural assets in the revised SNA needs to be determined precisely. Furthermore, the valuation of intangible and natural assets, which are generally not valued in the market as such and therefore require indirect methods, must be dealt with. Finally, the operational coverage of financial assets must be further refined.

(b) Environmental accounting

36. Past expert groups generally agreed that environmental accounts should be developed in parallel with the SNA. However, it has been agreed that product and income aggregates adjusted to take account of environmental degradation will not be introduced in the main accounts but developed as a very important example of satellite accounts. This treatment is felt to be the most appropiate in order to allow more freedom for progressive development and experimentation with these statistics without disturbing the main aggregates of the national accounts.

37. There are still several outstanding questions. No agreement has yet been reached on the exact links between those satellite accounts and the central framework of the SNA. Should some features that are relevant to environmental

accounting be incorporated in the central framework of the SNA? For example, the central framework may identify separately environmental protection services, and expenditures by government and enterprises for the purpose of environmental protection. Also, the SNA asset boundary may be defined the same as a separately identified part of the asset coverage of environmental accounts (economic assets) in order to facilitate linkage. Furthermore, there is the question as to whether some of the cost identified in environmental accounting - for example, depletion allowance - should be incorporated as an intermediate cost in the SNA.

(c) Use of SNA in transition economies

38. In principle, SNA concepts should apply to countries with different social systems, including transition countries. However, it has been observed that the organizational structures of those countries suggest some changes in emphasis in the SNA. For instance, the question of implicit subsidies is much more important in countries in transition than in countries with market economies.

39. The SNA text may identify some of the specific features of those countries and provide special guidance on how to apply SNA concepts, for example, the treatment of banks and the valuation of housing services, including those of owner-occupied dwellings, and the valuation of other highly subsidized goods and services. Further study is needed to clarify the extent of this problem of adaptation and the specific issues that are involved.

(d) Market versus non-market

40. The expert groups have agreed to introduce two changes in terminology: (a) the distinction between "industries" and "other producers" of the 1968 SNA has been replaced by the distinction between "market producers" and "non-market producers"; and (b) the distinction between "commodities" and "other goods and services" has been replaced by "market products" and "non-market products". In doing so, the expert groups have agreed that the distinction between "market" and "non-market" was fundamental to the SNA. The distinction affects valuation and institutional sectoring. This distinction between market and non-market producers is made in addition to an ISIC classification of production accounts by activities. As regards valuation, non-market products are valued at cost as opposed to market prices that are used for market products.

41. The criteria to distinguish between the two groups of products and producers are still being discussed. It has been suggested that non-market producers are those who cover less than 50 per cent of their cost by the revenue from sales of their products. However, it has not yet been decided whether such a distinction could also be made within legally defined corporations or whether corporations should always be considered as market producers. Furthermore, no agreement has yet been reached on how to treat the difference between the revenue and the cost - as a subsidy or as a part of government consumption. In the former case it would not affect GDP, while it would increase GDP in the latter case.

B. Review of the revised SNA by the regional commissions

42. The main features of the revised SNA were discussed during a round of regional meetings held between July and September 1990. They were discussed on the basis of a document prepared by the Inter-Secretariat Working Group on National Accounts. The main features are presented below, and a brief summary of the comments received from the regional meetings on each of the features is included. As mentioned in paragraph 15 above, the views and conclusions of these regional meetings are presented to the Commission in separate reports. Also, as indicated in paragraph 16 (b) above, the April 1991 Expert Group Meeting on SNA Co-ordination will review the regional comments in detail.

43. During the regional meetings it was emphasized that the system is in principle not different from the 1968 SNA. It has the same comprehensive overall content as its predecessor, covering both production analysis through its production accounts by activity groupings of establishments and input-output tables and income, flow of funds and balance sheet analysis through its institutional sector accounts.

44. The features that appear to be developing from the SNA review process are consistent with the mandate of the Statistical Commission, as indicated in paragraph 2. The resulting system is much clearer and more internally coherent than its 1968 predecessor, it is to a very large extent harmonized with related systems of statistics, and it introduces a number of features that reflect new analytical and policy concerns. While clarification results generally in simplification in one sense, it does not necessarily result in a less comprehensive system. The objective of simplification in terms of short-cut methods, reduced system and so on will be achieved mainly through handbooks that will be prepared in conjunction with the revised SNA.

45. Participants at only one of the regional meetings (ECE) commented on the general orientation of the SNA. It was suggested that chapters might be restructured in order to make the relationship to the sequence of accounts more transparent. It also was recommended that the rationalization of concepts to be included in the revised SNA be accompanied by a parallel text similar to ESA and by a bibliography of background and supporting references.

1. Integrated presentation of the system

46. The 1968 SNA is presented in two distinct ways - in the form of accounts and in a matrix format. The two alternative presentations are not clearly linked. In order to explain the system, it is proposed that the revised SNA include an integrated account presentation similar to the general table of transactions of ESA together with a matrix presentation. The two presentations would be clearly linked.

47. Most participants in the regional meetings agreed with this new orientation of the system, which in their view provided a very good overview of the system. Detailed discussion of the matrix presentation is still pending, as the matrix version has not been fully elaborated.

2. Integration of analyses of production versus income and financial analysis

48. An effort was made to further integrate the analysis of production based on establishment data, and the analysis of income and financial flows and balance sheets based on the classification of institutional units. Therefore, it is proposed that the revised SNA include production accounts by activity groupings and institutional sectors and also a cross-classification of value added and its components by economic activities and institutional sectors. In particular, it is planned that the revised SNA will provide separate production accounts for corporate units included in the corporate sectors and for small-scale production units included in the household sector.

49. There was no major disagreement concerning the integration of different types of analysis. However, countries that did comment expressed views that were related to the basic data organization and compilation procedures. The implementation of the proposals would require that their establishment surveys be reoriented in order to identify the institutional sector dimension of production and their compilation procedures be extended to include institutional sector data (in which most countries had no experience). Also, it was mentioned that in order to facilitate the links between the two types of statistics, international guidelines on industrial statistics should be adapted to the revised orientation of the SNA, as industrial statistics are an important input into the compilation of SNA regarding economic activities. Furthermore, developing country experts stressed the need for SNA to provide a distinction between formal and informal production activities. In their view, the formal-informal distinction is needed to supplement the distinction between establishments of corporate and household units of production, as the latter would not be able to reflect unequivocably all the nuances in the organization of production in their countries.

3. Production boundary

50. While there are no major changes proposed, the revised SNA will be more precise in its definition of the production boundary. It will include the production of all goods, including natural growth products, whether produced for the market or not. The production of services is included only if factors of production are remunerated.

51. Participants at the regional meetings generally had no difficulties with the intent of the clarification. However, in several of the discussions, it was pointed out that the production boundary thus defined is too heavily dependent upon the definition of services as distinct from goods, yet the concept of services is not clearly defined. Examples of applications of the revised definition of the SNA production boundary that were seen as creating difficulties concerned water-carrying and the preservation of agricultural products and fish for own account household consumption. Overall, experts from developing countries thought that the production boundary should be reviewed carefully, because the International Labour Organisation (ILO) definition of employment is linked to the SNA production boundary. The production boundary also should be more clearly defined with regard to informal activities, including those of an illegal nature.

52. The proposal to include natural growth products at the moment of growth was welcomed in countries with high inflation (Latin America). Other countries pointed to difficulties, such as how to record losses during growth before harvest. Some of those losses would have to be dealt with as adjustments to growth, while others should be treated as exceptional losses and recorded as a capital loss. The distinction between the two differs by region. Developing countries faced with the consequences of droughts would tend to include more adjustments in production than countries where fluctuations in growth and harvest are dampened by more advanced methods of agricultural production.

4. Valuation

53. Much attention has been paid to improving the valuation principles that govern SNA. The following recommendations have been made:

(a) The recommended exclusion of product taxes (including value added-type taxes) from the value of output and therefore value added of producers is to improve the economic meaning of the latter;

(b) The recommended distinction between market and non-market producers and products is to clarify the valuation of non-market products as distinct from market products. The non-market products would be valued at cost instead of using as a basis for valuation the prices obtained in the market;

(c) With regard to the valuation of government output, it was recommended that this include an imputed value of rent on government-owned buildings and depreciation of government-owned infrastructural assets, such as roads, dams and bridges;

(d) With regard to external transactions, it was recommended that the total of imports be valued at a f.o.b. value - similar to what is now used in the balance of payments - and the detail of imports by products continue to be valued at c.i.f. values;

(e) The resolution of the outstanding issue of how to treat black and parallel market and multiple exchange rates would contribute to more precise guidelines on the valuation of external transactions in terms of local currency.

54. In the regional meetings, participants raised several concerns. They wanted an unequivocal decision regarding product flows - basic values or producers' values - and reconsideration in particular of the latter valuation in view of the coverage of VAT-type taxes. Most participants agreed with the market versus non-market distinction, but were waiting for further recommendations with regard to the treatment of the difference between prices paid and cost incurred (subsidy or government consumption). Extensions of the cost of government output generally were not favoured, either because of data considerations or because countries felt that the extensions would unnecessarily increase the government contribution to GDP. Participants had no major disagreement with the f.o.b. valuation of imports and urged final recommendations regarding the valuation of external transactions in view of the increasing importance of parallel markets in foreign exchange and the revenues obtained from such transactions.

5. Residence and breakdown of domestic sectors

55. Expert groups confirmed that the overall criterion for residence would be the centre of interest, and the main operational criterion would be the one-year rule. In addition to these general rules, specific guidelines were established for technical assistance personnel, students, offshore banks, direct investment enterprises and international organizations. As regards the breaking down of domestic sectors into subsectors, the expert groups recommended the inclusion of non-profit institutions serving households as a subsector of the household sector and the introduction of households subsectors for socio-economic groups based on the type of income earned.

56. There were many examples presented of units that required further refinement of the residence criteria. These concerned mainly construction, transport, commercial and electricity-generating activities incorporated in an international non-financial enterprise that was managed jointly by different countries. Representatives of countries in which offshore banks were located thought that the inclusion of those units within their national accounts would unrealistically increase their countries' GDP and that implementation would be difficult because it would not be easy to get the required data from such units.

57. There was general acceptance of the inclusion of non-profit institutions as a subsector of the household sector. There were many reactions to the proposed socio-economic breakdown of the household sector; reconsideration of alternative breakdowns based on criteria other than type of income earned was urged.

6. Income concepts

58. The revised SNA places greater emphasis on income concepts than does its predecessor. They are brought out as balancing items by subdividing the sequence of accounts at several places. Gross national product, which will be called gross national income, is also integrated in the accounting framework. With regard to income of production factors, two concepts have been introduced as balancing items: entrepreneurial income and mixed income. Entrepreneurial income is a concept which is particularly useful for the analysis of corporate sector accounts, as it is defined to be close to income before taxes. The mixed income concept replaces the operating surplus concept for small-scale production units operated by household sector units; it includes not only components for remuneration of capital and entrepreneurship, as they are included in the operating surplus of the corporate sector, but also components for the remuneration of labour in family production units.

59. Entrepreneurial income was generally considered as a useful income concept; however, doubts were expressed regarding the applicability of this concept to production units in the household sector. Presenting mixed income separately from operating surplus was welcomed by some experts from developing countries, as that would more adequately describe income generated by production factors in their countries. Other experts thought that the two separate terms would not be needed, since the unincorporated production units of the household sector would always

include the contribution of the owner, which typically covers labour and capital contributions.

7. Further integration of balance sheets and accumulation accounts

60. As a consequence of the integration of balance sheets and accumulation accounts with the other sector accounts of the system, the revised SNA will include a new concept called changes in net worth. This concept will be the flow counterpart of net worth that was included in the balance sheets of the 1968 SNA. The changes in net worth will cover all changes - changes as a result of income generation, distribution and use (savings and capital transfers), and changes in net worth due to external influences, such as finding or depleting mineral deposits and destruction by natural and man-made disasters, and also due to inflation.

61. In line with the incorporation of this concept, it has also been agreed that the revised SNA should emphasize more strongly the net concepts of product (net domestic product), and income (national income and national disposable income), that is, product and income net of depreciation. The gross concept will be maintained, however, because of data problems in the derivation of depreciation estimates.

62. The incorporation of the accumulation accounts into the system was generally welcomed as an element which would clarify the relation between flow and stock accounting.

63. There was no objection to the emphasis on net concepts. However, in some meetings, it was emphasized that international organizations using GDP and GNP should change to the net equivalents.

8. Asset boundary

64. There appeared to be a general acceptance of the inclusion of software as an asset, even though some think of it not as an intangible but rather a tangible asset. There was also considerable support for including mineral exploration costs, because they are already included in enterprise bookkeeping practices in some cases; some, however, think that only successful expenditures should be capitalized, while others think that care should be applied to the allocation of such intangible assets between the countries where the exploration takes place and the countries where the company is resident. There is much less support for the inclusion among intangible assets of research and development and literary-artistic works, because enterprise accounting has not generally recognized these as assets.

65. There is general support for including environmental accounts as a satellite system in SNA and agreement that the asset boundaries of the main and satellite systems should be compatible. However, further discussion is needed on such questions as: Would the asset boundary include fish stock in the ocean, or include national parks? What would be the exact delineation between forests that are exploited in a controlled manner and "wild" forests where less controlled exploitation takes place?

66. There has been little discussion of the coverage of financial assets, presumably because few countries have experience in this area and because it has not been discussed conclusively in the expert groups. One issue that was raised concerns the valuation and treatment of swaps and similar arrangements used in the liquidation of external debt.

9. Financial transactions, transactors and accounts

67. A special effort has been made to integrate more adequately the complexity of financial instruments, markets and institutions operating in those markets. In this context, expert groups have recommended that the output of financial intermediation activities be distributed to its uses. Furthermore, the complexity has been recognized by an explicit definition of financial instruments and a classification in which all such instruments do find a place. Finally, it has been recommended that the financial corporations sector be expanded to include financial auxiliaries (such as commodity and securities brokers, flotation companies and guaranteeing agencies) and that SNA would also recognize unincorporated financial "enterprises" such as money lenders, which operate in rural areas of many developing countries.

68. There has been a mixed reaction to the allocation of financial intermediation services to uses, mainly because the criteria for allocation have not yet been fully developed. The incorporation of financial auxiliaries in the financial corporations sector was generally accepted, provided financial units which work exclusively for their parent companies would be classified in the same sector as the parent company. The definition of output of financial intermediaries with regard to money lenders was questioned, because the latter are not really intermediaries but mainly operate with their own funds. There is generally no major disagreement with the proposed classification of financial instruments.

10. Price and quantity measures, inflation accounting

69. The draft revised SNA pays more attention to the separate price and quantity measures of national accounts aggregates and has incorporated the recommendations developed in a separate manual. 12/ In the constant price measurement of product flows, SNA will deal in particular with chain indices in comparisons over time and will also discuss the derivation of price and quantity measures for comparisons between countries. In the derivation of income measures that are corrected for inflation, the revised SNA explicitly includes recommendations for the incorporation of the terms of trade effects and will also make explicit real holding gains that might be used as supplements to income.

70. The participants in the regional meetings generally agreed with the renewed emphasis on price and quantity measures and inflation accounting, which are particularly helpful in countries where national accounting is carried out under high inflation circumstances. Some participants favoured chain indices because they were up to date, while others thought that the compilation of such indices would result in an unacceptable burden on data collection and compilation

activities of statistical offices. No discussion was devoted to the incorporation of ICP methodology into SNA. There were also different opinions about the type of deflator to be used in the derivation of the terms of trade effect. And finally, in countries with high inflation, it was thought more appropriate to correct interest payments (and, therefore, income measures) for the compensation for real holding losses on monetary assets that is included in interest flows. The general feeling was that the revised SNA should be more flexible and present alternatives that countries may apply under different circumstances. There was general support for the much more precise elaboration of changes in stocks and work-in-progress, which would recognize volume and price components; it was found particularly useful for countries experiencing high rates of inflation. It was pointed out, however, that separate information on price and value changes in stocks cannot be easily obtained from available statistical sources.

11. Final consumption and final consumption expenditure

71. It has been proposed to supplement the 1968 SNA concept of final consumption expenditure of households and governments, which is based on payments, by an alternative concept called actual final consumption. This concept differentiates between consumption by government and non-profit institutions on the basis of the distinction between collective and individualizable consumption.

72. There was general support for the incorporation into SNA of the concept of actual final consumption. It was thought to be a useful concept for analysis. In one of the regional meetings (ECLAC), it was suggested that actual final consumption of households should also reflect final consumption expenditure in the enterprise sector.

III. IMPLEMENTATION OF THE REVISED SNA

A. General observations

73. There was much discussion at the meetings of regional commissions on the implementation of the revised SNA. Most of the countries agreed that the integrated framework of the system represents remarkable conceptual and analytical progress. However, serious concerns were about the actual possibilities of implementing the system in the short and medium term. Among the obstacles mentioned were the difficulties in compiling the necessary basic statistics, the constant mobility of technical personnel and the growing need to concentrate the small operational capabilities of statistical offices in elaborating mainly short-term indicators. Nevertheless, it was generally agreed that each country would compile the revised system in different stages at their own pace, consistent with their needs and capabilities.

74. At the meetings it noted that, in addition to handbooks that would guide national experts in the implementation and use of the system, technical assistance in various forms would be essential. Seminars, workshops and training courses at regional and country level; bilateral, regional and international technical

assistance; and further development of a compilation methodology using micro computers by the Statistical Office of the United Nations Secretariat should assist in implementing the revised SNA.

B. Specific problems identified in regional meetings

75. The implementation of the system in countries with high inflation would pose special problems, as national accounts would have to be compiled more frequently than every quarter. Any expansion of the system would present very difficult resource problems, particularly for those countries.

76. A special problem is faced by countries with transition economies, which need not only to elaborate new data series but also to link them with past data series, which are generally based on MPS guidelines. It has been suggested that these countries should use the past MPS/SNA conversion methodology to make the past series comparable with the new series and carry out special studies in order to understand how to link past and present series based on different valuation principles.

77. Another difficulty was mentioned that would be encountered when implementing the institutional orientation of the revised SNA is that enterprise units change more in composition than do establishment units. Statistical coverage of such units is therefore more difficult. Also, increased privatization and dismemberment of State enterprises have led to a greater number of producer units from which data needs to be collected.

IV. POINTS FOR DISCUSSION

78. In the light of the present progress report, the reports of the meetings of the regional commissions, the report of the Expert Group Meeting on Reconciliation of SNA and MPS Standards on National Accounting and the interim draft of the revised SNA, the Commission, at its present session, may wish to comment on the following:

(a) Do the interim draft chapters of the revised SNA generally conform with the objectives of the revision process? (see para. 2);

(b) Does the Commission agree with the orientation of the regional commissions on further developments of the SNA (as indicated in the separate regional meetings reports and summarized in paras. 42-71 of the present report)? Would it like to give additional guidelines - in particular, on such issues as the presentation of environmentally adjusted aggregates and the relation of the revision process to countries in transition? (see paras. 36-39);

(c) Does the Commission endorse the revised timetable? (see paras. 5 and 16-20);

(d) Does the Commission recommend approaches for securing additional funding for the completion of the revised SNA in 1993 other than those planned by the Inter-Secretariat Working Group on National Accounts? (see paras. 29-32);

(e) Would the Commission continue to assign highest priority to work in the revised SNA, including the production of handbooks? (see paras. 21-28).

Notes

1/ Draft of the revised System of National Accounts (SNA) (PROVISIONAL, ST/STAT/SER.F/2/Rev.4).

2/ Report of the Second Expert Group Meeting on SNA Co-ordination held at New York, 12-21 July 1989.

3/ Report of the Third Expert Group Meeting on SNA Co-ordination held at New York, 13-22 September 1989.

4/ E/CN.3/1991/11.

5/ E/CN.3/1991/7.

6/ E/CN.3/1991/6.

7/ E/CN.3/1991/9.

8/ E/CN.3/1991/8.

9/ E/CN.3/1991/10.

10/ Funding for these activities is to be provided by the member organizations of the Inter-Secretariat Working Group on National Accounts as well as from extrabudgetary support for the SNA review programme. With respect to work proposed for support by the regular budget of the United Nations for 1992-1993, resources for such work will be included in the proposed programme budget for the biennium 1992-1993 currently under preparation.

11/ Provisional International Guidelines on the National and Sectoral Balance-Sheet and Reconciliation Accounts of the System of National Accounts, Series M, No. 60 (United Nations publication, Sales No. E.77.XVII.10).

12/ Manual on National Accounts at Constant Prices, Series M, No. 64 (United Nations publication, Sales No. E.79.XVII.5).

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NATIONAL ACCOUNTS AND BALANCES: SYSTEM OF NATIONAL ACCOUNTS (SNA)

Report of the Working Party of the Conference of European Statisticians on the System of National Accounts (SNA)

SUMMARY

The present report contains a summary of the main recommendations, conclusions and future work plan made by the Working Party of the Conference of European Statisticians on National Accounts and Balances, at its meeting held at Geneva, from 10 to 13 September 1990.

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PART ONE

INTRODUCTION

1. The Working Party on National Accounts and Balances held its fifteenth session at Geneva from 10 to 13 September 1990. It was attended by participants from the following countries: Austria, Canada, Czechoslovakia, Denmark, Finland, France, German Democratic Republic, Germany, Federal Republic of, Hungary, Italy, Malta, Netherlands, Norway, Poland, Romania, Spain, Sweden, Turkey, United Kingdom and United States. Representatives from the Statistical Office of the United Nations Secretariat, the European Economic Community, the Expert Group on Co-ordination of the System of National Accounts and consultants to the Statistical Office also attended. The provisional agenda contained in document CES/WP.22/105 was adopted. C. S. Carson (United States) was elected Chairman, and B. Szybisz (Poland) was elected Vice-Chairman.

I. REVISION AND UPDATING OF SNA

2. The Working Party had before it the draft chapters of the revised System of National Accounts (SNA) (ST/ESA/STAT/SER.F/2/Rev.4). It was suggested that the discussion be based on the document entitled "System of National Accounts (SNA) review issues", prepared by the Intersecretariat Working Group on National Accounts.

3. It was decided that the report of the meeting should consist of two parts: the first part would be structured according to the wishes of the Working Party, and the second part would have a standard structure. The outline for the second part of the report has been approved by the Working Group of the Statistical Commission.

4. The representative of the Statistical Office of the United Nations Secretariat informed the Working Party about the work accomplished and the plans for further work on the ongoing SNA review.

II. FUTURE WORK

5. The Working Party discussed future work and, in conclusion, proposed to include the following description in the work programme of the Conference:

(a) Description: Regional contributions through the Working Party on National Accounts and Balances to the further conceptual development of SNA and its implementation in the region in accordance with the plans and needs of the United Nations Statistical Commission; implementation of SNA in transition economies; development of handbooks on national accounting, including one on the application of SNA in transition economies; development of financial and monetary statistics consistent with SNA; consideration of problems related to the satisfactory statistical coverage of the hidden economy.

(b) Work to be undertaken:

(i) Contribute to co-ordination and evaluation of subsequent SNA drafts in the region;

(ii) Facilitate implementation of SNA through the development of handbooks and similar materials;

(iii) Training and workshops carried out through co-operative projects;

(iv) Consideration of issues regarding co-ordination between the development and implementation of SNA and related systems of statistics;

(v) Methodological work for establishing retrospective statistical information according to SNA in transition countries;

(vi) Development of methods for the inclusion in SNA of existing financial statistics in transition economies;

(vii) Development of methods for the inclusion of the results of "hidden" and "informal" economic activities in national accounting aggregates.

(c) Duration: Continuing.

III. ADOPTION OF THE REPORT

6. The Working Party adopted the present report at its closing session, on 13 September 1990.

PART TWO

I. GENERAL ORIENTATION OF THE DRAFT OF THE REVISED SNA

7. The Working Party was invited to comment in general on the structure and presentation of the draft chapters of the revised SNA.

8. A large number of participants felt that some restructuring of the chapters might be beneficial in order to make the relationship to the sequence of accounts more transparent. A proposal which received support was to begin with a general overview of the system and then follow with chapters on institutional units, sectors and subsector flows of goods and services; production accounts for sectors; primary distribution of income; secondary distribution of income; use of income account; capital and financial account; balance sheets; and production accounts for industries and input-output, price and volume measures.

9. It was pointed out that the SNA serves different purposes - it serves as a reference manual for experienced national accountants, an introduction to those just starting to compile accounts according to SNA and an explanation to users.

Many participants felt that for many of these uses, the present draft could advantageously be supplemented by a presentation similar to that in the existing European system of integrated economic accounts.

10. Participants welcomed the fact that the draft SNA explains the rationale behind the various treatments adopted, but they recommended it should be accompanied by a bibliography of background and supporting references.

11. It was recognized that countries in transition have an urgent need for a handbook explaining the implementation of the revised SNA, given their particular organizational and institutional arrangements.

II. MAIN CONCEPTS AND CLASSIFICATIONS OF THE REVISED SNA

A. Integrated analysis of production, income generation and income distribution

1. Statistical units

12. In introducing the topic it was pointed out that dual sectoring is retained but the institutional unit receives more emphasis. All accounts, including the production account, will be presented for institutional sectors. In addition a cross-classification of value added and its components by institutional sectors and activities will be shown.

13. Several participants expressed considerable concern that legal form alone may not always be a suitable basis for defining units, given the increasing tendency to adopt legal structures solely in response to administrative or fiscal regulations. It was noted that the concept of ancillary corporations has been introduced into a revised chapter III to deal with this problem in a manner consistent with the introduction to the International Standard Industrial Classification of all economic activities (ISIC). Similar issues need to be addressed in the definition of establishment in the relevant chapters of the revised SNA.

14. Some participants questioned the usefulness of production accounts for institutional sectors, while others reported that they already compile these and do find them useful. There was more agreement on the desirability of cross-classifying value added by institutional sectors and industries.

15. The definition of statistical units is important not only for national accounts but also for economic statistics generally and influences the picture of the economic processes which the data provide.

2. Alternative income concepts related to production

16. In the revised SNA it was proposed that two new income concepts - primary income and entrepreneurial income - be included. Primary income results from the allocation of value added and taxes net of products to labour, capital and government, and eventually in both directions to the rest of the world. Primary income thus would be the sectoral equivalent of national income for the national economy. Entrepreneurial income would be an intermediate concept between operating surplus and primary income. For corporations, it would be obtained by deducting property income paid from operating surplus and adding property income received; for households, it would be derived by deducting only property income paid in the context of running an unincorporated private enterprise. In both cases, entrepreneurial income would be close to profits before taxes. In the household sector no property income was added in the derivation of entrepreneurial income because it was assumed that all receipts of property income by households would be received by them in their capacity as households and not as owners of unincorporated enterprises.

17. The Working Party welcomed the introduction of additional income concepts and their elaboration into the accounting structure. However, doubts were expressed about the concept of entrepreneurial income in the household sector since this entails splitting interest between that relating to the household's production and consumption activities.

3. Market and non-market production

18. It has been proposed by the expert groups to distinguish between market and non-market producers and market and non-market products. Typically market producers would cover 50 per cent or more of their cost through sales and non-market producers less than 50 per cent. The price of market products should be determined on the basis of a market price, while non-market products should be valued on the basis of cost. Questions still remain about whether or not to classify all corporations as market producers or also to apply, in this case, the 50 per cent criterion. The other outstanding issue is whether to allocate quasi-corporations which do not meet the 50 per cent criterion to the government sector or to the corporate sector, and when the latter option is taken, whether to value their output at prices actually paid with subsidy to cover the shortfall, or whether to value their output at cost and treat the cost not covered by sales as government consumption.

19. The majority of the Working Party felt that for an institutional unit to be included in the corporate sector legal form alone is not sufficient but that the unit should be created for the purpose of generating a profit.

20. When government makes payments to producers so that they will supply goods and services at reduced prices, most participants felt these payments should be treated as subsidies, with output valued at the prices actually paid. Other participants preferred that such government payments should be treated as government final consumption expenditure with output valued at total cost.

21. This problem is particularly relevant for countries in transition, where subsidies are currently being rapidly reduced.

4. Financial intermediaries: bank and insurance services

22. A number of changes have been suggested with regard to the output and distribution of output of financial intermediaries, that is banks and insurance companies. In the case of banks, it has been proposed that bank output is a real output whose value is approximated by adding to actual bank service charges the imputed charges based on the difference between property income received and paid. It has been furthermore recommended that the imputed charges be allocated to users together with the actual bank service charges. The imputed service charge to be allocated to each sector would be the difference between interest received or paid on the one hand, and a reference interest rate on the other. The imputed service paid by each user would be deducted from the interest paid by bank borrowers and added to the interest received by depositors in order to arrive at a pure interest rate. The latter would be recorded as property income received and paid in the Appropriation of primary income account.

23. In the case of insurance service charges, the expert groups recommended that property income on technical reserves be added in calculating the service charge. This recommendation was based on the recognition that premiums of insurance companies have been reduced in recent years, as those companies draw part of their revenues from investments of their technical reserves. As this is the case for life insurance and casualty insurance, it is recommended that this amendment be applied to both types of insurance service charges.

24. There was no disagreement over the proposal for an insurance service charge. Some participants welcomed the proposals about the allocation of bank service charges among uses. But more had strong reservations, arguing that the full range of problems had not yet been studied and resolved. It was not clear how payments by households would be split between their production and consumption activities; it was felt that the method of financing should not affect an industry's value added. The question of how to deflate the service charge to constant price was still unresolved; the treatment adds imputed income to lenders. The number and importance of the assumptions that would be necessary to implement the proposed treatment at present would cast doubt on the validity of the resulting estimates. A number of participants urged that the way of recording bank service charges in the present SNA should not be altered until further supplementary analyses have been developed attempting to analyse bank activity.

5. Employment, production and income distribution

25. The new SNA will include a set of recommendations for population and employment aggregates, consistent with the main aggregates of the system, to permit integrated analysis of the labour market and the economy. In particular, greater stress will be laid on actual hours worked as a measure of labour input. The definitions will as far as possible be consistent with those of the International Labour Organisation (ILO).

26. Participants welcomed the proposals and hoped they would be accorded adequate importance in the revised SNA.

B. Valuation

27. Participants were informed about the valuation alternatives that were proposed for valuing the product flows and value added included in the supply and use tables and the production and income generation accounts of the sequence of accounts of the revised SNA. These included three valuation alternatives for output: (a) basic prices; (b) producers prices in the absence of VAT; and (c) producers prices in the presence of VAT. Corresponding to the three valuation alternatives of output there would be three alternatives for value added: (a) value added excluding all product taxes; (b) value added excluding import duties only; and (c) value added excluding import duties and VAT-type taxes. The product taxes not included in value added of each industry under the three valuation alternatives would be added globally in order to arrive at gross domestic product (GDP) market prices.

28. The Working Party felt that SNA should give specific recommendations on valuation rather than a range of options. The interrelationships between different valuations need to be adequately explained.

29. The Working Party recommended that in the institutional sector accounts, output should be valued at basic prices and all uses of goods and services at purchasers' prices (net of deductible VAT-type taxes). In making and using input-output tables, more flexibility was appropriate for valuing uses.

C. Integration of stock analysis with the traditional flow analysis of the national accounts

30. In introducing the various topics concerning the valuation, classification and coverage of assets, it was pointed out that the asset question as a whole was still an unresolved issue. All statements made by those introducing the topics reflected tentative views which may be altered after the discussion in the December 1990 Expert Group Meeting on SNA Co-ordination. In view of this, participants in the present meeting were urged to present their views so that they could be taken into account in recommendations by the Expert Group.

1. Coverage and classification of produced assets

31. In the 1968 SNA, services are treated as being consumed immediately on delivery. It has been argued that some types of services serve similar purposes to tangible fixed capital in that they yield benefits over annual periods beyond the period in which they are acquired. Examples include computer software, mineral exploration, research and development and intellectual property.

(a) Research and development (R and D)

32. There is already an international recommendation defining R and D expenditure (in The Measurement of Scientific and Technical Activities (Paris, Organisation for Economic Co-operation and Development, 1981), also known as Frascati Manual) which served as the background to the discussion of the SNA Expert Group. The Expert Group on input-output tables recommended that "at least some" of this R and D could be treated as fixed capital in the new SNA. They recognized that there were problems with the identification of the resulting assets, the overlap between these and patents and estimating the appropriate rate of depreciation. Although these problems are difficult, they are not felt to be intractable. Discussion in later expert groups led to the conclusion that it was very difficult to decide how to divide R and D expenditure into two parts, one part to be treated as capital expenditure and the other to be treated as intermediate consumption as at present. The recommendation is therefore that all R and D expenditure as defined according to the Frascati Manual should be treated as capital expenditure.

33. In the discussion one participant rejected outright the proposition that services would be treated as capital, and therefore felt that in principle no R and D should be so treated. Only one participant spoke wholly in favour of the recommendation that (almost) all R and D be treated as capital. Most participants had some sympathy with the idea that some R and D might eventually be treated as capital. However, serious reservations were expressed about whether R and D should be included since much of it has a closer parallel with human capital rather than fixed capital. Practical problems were also recognized in the measurement of R and D and separation by type.

34. In conclusion, most participants were not in favour of changing the SNA now to include R and D expenditure as capital formation. It was suggested that identification of R and D expenditure was important, and for this and other purposes, it was felt it would be useful if the work that had been started on classifying outlays of industries by purpose (COIP) could be revived. Several participants expressed their intention to develop satellite accounts on R and D and felt that was the appropriate way to proceed at present, rather than changing the SNA.

(b) Mineral exploration

35. At present, it is suggested in the SNA that mineral exploration costs should be treated as intermediate costs, in parallel with its recommendations on R and D. It was noted that none the less, several countries do treat at least some mineral exploration costs as capital.

36. In the discussion, several participants said they felt that there was no need to preserve a parallel treatment for mineral exploration and R and D. There was considerable support for treating some mineral exploration costs as capital, though not necessarily all. The possibility of using commercial accounting guidelines on how much expenditure to treat as capital was also mentioned.

(c) Intellectual property

37. The recommendation in this area is that some intellectual property, specifically literary-artistic works, should also be candidates for treatment as fixed capital. This implies two sets of changes in the 1968 SNA. At present such activities, when undertaken on own account, are excluded from the production boundary and give rise not to primary income but to property income. It is now proposed that such activities be included within the production account. Further, it is suggested that literary-artistic work be recognized as the asset that gives rise to future income, which would be treated as fixed capital in place of the copyrights which at present are included in non-financial intangible assets.

38. Discussion on this item was limited. Participants were urged to write with further comments to the Intersecretariat Group, in care of the Statistical Office of the United Nations Secretariat.

(d) Software

39. The Working Party agreed with the proposals to treat major software purchase and development as capital formation.

2. Depreciation of roads, dams and other government assets

40. The expert groups recommended introducing consumption of fixed capital on all government fixed assets, including not only government buildings but also roads, dams and similar structures. The 1968 SNA assumed that maintenance of roads and similar structures would result in infinite service lives of those assets. It was thought that this assumption was inappropriate, and indeed, major deterioration over time of roads and similar structures does take place. In such instances the difference between gross and net product and gross and net capital formation is understated, sometimes seriously so. It is therefore proposed that the assumption of infinite service life for these assets should not be automatic, and where appropriate, estimates of consumption of fixed capital be included in the accounts.

41. One participant reported that such estimates are already made in his country, another participant expressed reservations. While recognizing that difficulties may arise in making the estimates, the Working Group agreed with the proposal.

3. Environmental assets, including natural growth

42. Environmental assets consist of three main groups, namely natural cultivated assets, which are included under produced fixed assets, and land and subsoil assets which are both included under tangible non-produced assets. The natural cultivated assets include all products including animals, for breeding, dairy, draught and so on; timber tracts and cultivated forests; plantations (orchards, vineyards and so on); fisheries. It is proposed that all such products of controlled or cultivated natural growth be recorded as output at the moment of growth. Output of such controlled natural growth processes is considered as work-in-progress which adds to

changes in stocks and, in some instances, to gross fixed capital formation such as in the case of the raising of livestock for breeding, dairy and draught.

43. The proposals on the treatment of natural growth are related to the wider field of environmental accounting. The meeting was informed about a joint Statistical Office of the United Nations Secretariat/World Bank programme to develop environmental accounts as satellite accounts to the revised SNA. A general presentation was given of the links between the environmental satellite accounts and the central framework of the revised SNA and about the differences in the concepts of income, intermediate cost and value added and capital between the two systems of accounts.

44. At the meeting, it was recognized there is some lack of conceptual homogeneity in the 1968 SNA, which records the raising of livestock as production but not growth of crops or trees.

45. As regards annual crop products, many participants saw difficulties in the proposal to value output as the sum of costs - in particular with regard to the labour input of self-employed farmers. Severe data problems were also noted.

46. At the same time, several other participants strongly favoured recording the natural growth of forests as output. It was suggested that consideration should be given to showing natural growth as output - both for animals and crops - only when the normal growth period exceeds one year.

47. Considerable interest was expressed in the development of environmental accounting. However, the participants felt unable to comment adequately on specific issues until work in this area (including the draft of a handbook) has progressed further.

48. Several countries reiterated their preference for environmental concerns to be dealt with in satellite accounts, not through changes of the main aggregates of SNA, at least at this stage. It was felt desirable, however, to amend the classifications to identify environmental expenditure and regroup activities to highlight those related to the environment.

D. Financial instruments, financial sector and financial accounts

1. Financial sector: financial intermediaries and financial auxiliaries

49. The revised SNA recommends that the financial corporate sector in SNA be expanded, as compared to the 1968 SNA, to include auxiliary enterprises that facilitate financial intermediation, in addition to enterprises which are primarily engaged in financial transactions, in the market consisting of both incurring financial liabilities and acquiring financial assets. The main reasons for this change are the increased provision of financial services by units other than financial intermediaries, the inappropriateness of placing a growing group of financial service enterprises in the non-financial corporate sector, the difficulty

of drawing the line between auxiliaries and intermediaries and the likelihood that further innovations in the financial industry would continue to blur the line between financial intermediaries and auxiliaries.

50. In the discussion, some participants argued that financial units which work exclusively for their parent companies should be classified in the same sector as the parent company. However, this case appears only for the creation in the draft SNA (and International Standard Industrial Classification (ISIC)) of the concept of ancillary corporations. Given this clarification, the group accepted the inclusion of other financial auxiliaries in the financial corporate sector.

2. Financial instruments and specific issues

(a) Gold

51. The SNA expert groups reached a decision that only two categories of gold be recognized - monetary and commodity gold. Monetary gold held by the monetary authorities is treated as a financial asset. Any other gold held by the authorities and by financial institutions other than the central bank is treated like any other commodity.

52. One participant argued strongly in favour of retaining the broader concept of financial gold to be found in the 1968 SNA, rather than recognizing gold as a financial asset only when held by monetary authorities (monetary gold) as in the balance of payments. A note from the International Monetary Fund (IMF) recognized the usefulness of the points raised and recommended that the issue be reconsidered at the next SNA expert meeting on the basis of their written comments.

(b) Other issues regarding financial instruments

53. In the discussion, concern was expressed about the absence of a recognized debtor for special drawing rights (SDR), the classification of options as non-financial intangible assets and the adequacy of the notion of conditionality in defining contingent assets. One participant suggested that direct investment should be brought into the main instrument. Classification guidance should be given on how to treat capitalized income from mutual funds depending on whether the income comes from the creation of new units or increased value of existing ones.

E. Transfer of resources between countries

Reinvested earnings on direct investment

54. The proposed introduction of reinvested earnings in SNA harmonizes SNA with the present treatment of balance of payments. The reinvested earnings would be introduced as part of property income paid/received in the external sector and, at the same time, would be reflected as an increase in foreign assets/liabilities.

55. Several participants were opposed to the proposed treatment for a variety of reasons, including the unclear definition of direct investment enterprises and the absence of necessary data. One participant felt it would be more useful to develop accounts for a subsector of foreign-controlled enterprises.

56. Several other participants strongly endorsed the proposal in the draft SNA and have already adopted this treatment in their own accounts.

57. Both groups recommended that consideration should be given as to whether an analogous treatment should be extended to relationships between domestic sectors in the future.

F. Analysis of inflation

1. Chain indices

58. The question discussed by the expert groups was whether fixed-base, Laspeyres volume indices would need to be replaced or supplemented by chain indices with moving weights which would change from year to year. The expert groups had suggested that the annually chained indices be presented as supplements to the fixed-base volume indicators.

59. The revised SNA suggests that Laspeyres-type volume measures should be adopted and rebased at frequent intervals, such as every five years, and that these five-year spans should be chain-linked to obtain long time series.

60. Strong support was expressed for the annual chaining of indices; others favoured chaining but not necessarily on an annual basis. Whether chaining is annual or five-yearly, discrepancies due to non-additivity arise, and SNA should indicate how to deal with this problem.

2. Trading gains and losses from changes in the terms of trade

61. The expert groups have proposed that trading gains and losses from changes in terms of trade be included as an integral part of the revised SNA. These gains and losses would be added to GDP at constant prices in order to derive a new income concept to be referred to as real gross domestic income.

62. Many participants called for SNA to recommend only one formula for deriving this concept. However, several different methods were advocated.

3. Revaluation of changes in stocks

63. Changes in stocks should be calculated as the difference between incoming flows and outgoing flows valued at the prices at the time they occur. Under non-inflationary conditions, this may be approximated by calculating the difference between the opening and closing stocks in volume terms and applying an average

price to arrive at the changes in stocks in current prices. In situations of high inflation, the two methods give different results.

64. The Working Party welcomed the fact that the revised SNA makes explicit the conceptual treatment of change in stocks in the context of the general treatment of the revaluation of assets. This exposition is an advance over the previous SNA. Some participants felt, however, that more attention should be devoted to the non-inflationary case and to practical considerations, in particular, the fact that most source data related not to physical units but to money values from company records.

4. Inflation accounting

65. The Working Party endorsed the recommendations to separate nominal holding gains into neutral and real elements and to record nominal as opposed to real interest in the Distribution and use of income accounts.

G. Role of the household sector in the economic process

Consumption expenditure, actual consumption and disposable income

66. In presenting the sequence of accounts, it was explained that it was proposed to include in the revised SNA two consumption concepts for households and government. One concept, called final consumption expenditure, would refer to payments made by households and government for items of consumption. The second concept, called actual final consumption, would include with households those expenditures made by government that could be individualized, such as education, health and so on, while other final consumption expenditures by government of a collective nature, such as for defence and police, would remain in actual final consumption of the government sector. The distinction between individualized consumption and collective consumption paid for by government would be made on the basis of categories described in the Classification of the Functions of Government (COFOG) (United Nations publication, Sales No. E.80.XVII.17). To the two consumption concepts for the two sectors, correspond two alternative income concepts, called disposable income and adjusted disposable income; the difference between the two would be transfers in kind from government to households that would constitute the difference between actual final consumption and final consumption expenditure of households. The total of final consumption expenditure and actual final consumption of households and government together would be the same. Also, disposable income minus consumption expenditure and adjusted disposable income minus actual final consumption for households and government would give the same savings for each sector.

67. The Working Party welcomed very warmly the introduction of the twin concepts of consumption expenditure and actual consumption. It was noted that changes would be needed to both the classification of household goods and services (CHGS) and COFOG to facilitate this.

III. ACCOUNTING FRAMEWORK

68. It is proposed that the revised SNA include a central framework of accounts and tables and supplementary accounts and tables linked to the central framework. The central framework will include a hierarchical classification of transactions, transactors and assets, a sequence of account for institutional sectors and a supply and use table. In addition, the central framework will include simplified accounts, for the nation, integrated T-accounts for the national economy, an alternative matrix presentation of the system and, finally, sector accounts, input-output tables and three-dimensional balance sheets and flow of funds tables which identify assets and liabilities and changes therein by type of asset, debtor and creditor sectors. The supplementary accounts and tables will include applications of the system for special circumstances and analyses, satellite accounts and tables, and accounts and tables related to the links between SNA and other statistical systems, such as government finance statistics (GFS), balance of payments and money and banking statistics (MBS).

69. In the discussion a number of points were made, as follows. In response to a question, it was confirmed that the supply and use table is an integral part of the central framework. Participants felt that simplified accounts are useful. In these simplified accounts it would be preferable to disaggregate the Distribution and use of income account so that a sub-account corresponds to each major aggregate. Some participants queried the need to integrate the goods and services account with the institutional sector accounts in precisely the way it is done in the tables. In relation to the full sequence of accounts, it would be desirable to indicate clearly how totals and subtotals are derived. Some participants felt that the Integrated economic accounts for the nation were a good presentation; other participants had trouble with this presentation.

70. Some participants felt that the present draft did not adequately highlight the advantages to be gained from developing a social accounting matrix (SAM), which allows different classifications to be used for different aspects of the accounts and could form the basis for broader based modelling than that associated with input-output analysis. At the same time, it was noted that a SAM should be seen as a particular manifestation of SNA and not as an alternative system.

IV. IMPLEMENTATION OF THE REVISED SNA AND TOPICS OF SPECIAL CONCERN TO THE REGION

71. For convenience, these two items were taken together in the discussion which focused mainly on the problems of countries in transition to a market economy. It was noted, first, that although there are many problems which are similar, they also differ in some respects.

72. Participants reported that their countries were advancing rapidly to calculate national accounts on an SNA basis. Most countries preferred to adopt directly the recommendations of the revised SNA. An obvious problem is the period of overlap between the system of balances of the national economy (MPS) and SNA and how to construct historical time series on a consistent basis. The easiest part to

develop, because it is largely treated in MPS, relates to the production account. Greater difficulty will be experienced with income flows, financial assets and the financial sector in general.

73. Another major common problem flows from the enormously increased number of producer units - a consequence of privatization and the dismemberment of the State enterprises - from which data needs to be collected. This brings with it problems of sampling and non-response which were not previously encountered. The quality and availability of the statistics depends on the adoption of good, standardized company accounting methods.

74. Countries in transition indicated they would welcome assistance in carrying through the major changes in their statistics and accounts that the profound changes in their economies implied. For this, handbooks and methodological papers are useful but not by themselves sufficient. More direct technical assistance and advice is needed, and in this connection, it was noted that several bilateral co-operation projects have already begun.

Annex I

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Annex II

LIST OF DOCUMENTS

Agenda (CES/WP.22/105)	
Gold in international systems of national accounts	U. K. Central Statistical Office
A proposal for SAM which fits into the next system of national accounts	S. J. Keuning, Central Bureau of Statistics, Netherlands
Reinvested earnings from direct investment	U.S.A. Bureau of Economic Analysis
Summary input-output tables at basic prices and at producer prices	Kishori Lal, Statistics Canada
SNA review issues: Austrian observations	Austrian Central Statistical Office
Note by the Secretariat on SNA review: points for discussion	
Note by the Secretariat on proposals for future work	

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NATIONAL ACCOUNTS AND BALANCES: SYSTEM OF NATIONAL ACCOUNTS (SNA)

Report of the Economic Commission for Africa Meeting on the System of National Accounts (SNA)

SUMMARY

The present report contains a summary of the main recommendations and conclusions emanating from the ECA regional Meeting on the System of National Accounts Revision held in Addis Ababa, from 16 to 25 July 1990.

* E/CN.3/1991/1.

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I. FEATURES OF AND CHANGES IN THE DRAFT OF THE REVISED SNA

1. During the discussions of the United Nations System of National Accounts (SNA) review topics on which expert groups had made recommendations, only a selection of issues could be dealt with due to time constraints. The selection included those issues that were thought most important for the African region. Most attention was paid to topics related to production accounts analysis and their integration into institutional sector accounts, valuation of product flows and value added, household and external sector accounts, inflation and related exchange rate questions. In particular, the topics that were not considered at the meeting related to financial corporations and financial instruments, as they were thought to be less relevant for the region.

A. Integrated analysis of production, income generation and income distribution

1. Statistical units, establishments, enterprises

2. As in the 1968 SNA, there are two main statistical units in the revised SNA. Establishments are defined as units with a homogeneous output and operating in one location, but in order to provide flexibility and link the concept with the more practical definition of establishments in the recently revised International Standard Industrial Classification of All Economic Activities (ISIC) Rev.3, the SNA allows for less homogeneous units of production, which may produce secondary products.

3. The meeting focused on the implication of the definition of establishment for gross output of agriculture as dealt with in the Food and Agriculture Organization's Handbook on Agricultural Accounts. Participants felt that the recommendation by the expert groups not to identify output produced in an establishment and used in the same establishment for intermediate consumption would have to be amended in the case of agriculture. It would be difficult to identify within output products which are used in the same agricultural holding. It was also felt that information would be lost if such intra-establishment deliveries in the case of agriculture would be consolidated out.

4. The meeting concluded that output in agriculture should be recorded gross, including products used as intermediate consumption in agriculture.

2. Alternative income concepts: primary, entrepreneurial and mixed income

5. The revised system includes two new income concepts, namely primary income and entrepreneurial income. Primary income would be obtained for each sector by adding to or deducting from operating surplus compensation received or paid, and by further adding property income received net. Primary income thus would be the sectoral equivalent of national income for the national economy. Entrepreneurial income would an intermediate concept between operating surplus and primary income.

For corporations it would be obtained by deducting property income paid and adding property income received, and for households it would be derived by deducting only property income paid in the context of running an unincorporated private enterprise. In both cases, entrepreneurial income would be close to profits before taxes. In the household sector no property income was added in the derivation of entrepreneurial income, because it was assumed at that all receipts of property income by households would be received by them in their capacity as households and not as owners of unincorporated enterprises.

6. Regarding the concept of entrepreneurial income, which for corporations and households operating unincorporated enterprises would be close to profits before taxes, the assumption that all property income received by households was assumed to be received in their capacity as households and not as owners of unincorporated enterprises was questioned. Some households may receive large amounts of property income from renting out large areas of land on which cattle are raised. Such revenues could not be considered as revenues received by the households in their capacity as households.

7. Regarding the terminology change from gross national product (GNP) to gross national income (GNI), it was mentioned that the term "product" should be retained. It was explained that the term "product" would be only used in the revised SNA for gross and net output and that once proceeds generated by production were assigned and redistributed to and between sectors, the term "income" would be used.

8. Participants agreed with the introduction of three new income concepts in the sequence of accounts, namely primary income, entrepreneurial income and mixed income in the case of households. Those income concepts were thought to be useful despite the problems in compiling or developing the estimates.

3. Production boundary

9. The revised SNA was not substantially changed as compared with the 1968 system. Only further clarifications and specifications were introduced. The expert groups agreed that all goods production would be included in the production boundary and that services production would be included only if those services were rendered by one economic unit to another. In that definition, household services produced and used in the same household would be excluded from the production boundary.

10. The discussion focused on the distinction between goods and services as an essential element in defining the production boundary. It was mentioned that carrying water was a service and not a good, as had been recommended by the expert groups, and that even fruit gathering and hunting could be seen as services, since production was carried out not by man but by nature. According to that view, the only activity of man was to gather the freely available fruits and hunt the animals in the wild. It was pointed out, however, that such arguments could also be used in the case of oil extraction or fishing, and that in those instances there was a general consensus that goods production was involved and not the production of services.

11. It was noted that the expert groups had paid much attention to the incorporation in the production boundary of various activities that were of particular concern to the African region. Participants agreed with the expert groups that all production of goods should be included in the production boundary and production of services if they involved a transaction between two separate economic units. They confirmed that output of goods production included the products of hunting, fruit gathering and carrying of water.

4. Quasi-corporations versus unincorporated enterprises

12. It was pointed out that quasi-corporations would be retained in the revised SNA. They would be added to the legally defined corporations in the case of market producers to form the two sectors of non-financial and financial corporations in the system. The main criterion for distinguishing between quasi-corporations and unincorporated enterprises was that the former kept separate accounts, and withdrawals from entrepreneurial income could be separately identified. Those criteria would apply in principle to private and public unincorporated enterprises.

13. The discussion was restricted to how small-scale production units that carried out financial operations (money lending) and other types of production would be classified. It was pointed out that such units would be included in the household sector and would be distinguished as separate establishments in the classification by kind of economic activities.

14. The meeting agreed with the expert groups that a quasi-corporate enterprise should be distinguished from an unincorporated enterprise on the basis of the availability of a complete set of accounts, including information on withdrawals from entrepreneurial income. It was noted that money lenders operating in the informal sector would be considered as unincorporated financial enterprises to be included in the household sector.

5. Market and non-market production

15. The expert groups proposed that a distinction be made between market and non-market producers and products. Typically, market producers would cover 50 per cent or more of their cost through sales and non-market producers less than 50 per cent. The price of market products should be determined on the basis of a market price, while non-market products should be valued on the basis of cost. The question remained whether or not to classify all corporations as market producers and, if so, to apply the 50 per cent criterion. Another issue was whether to allocate quasi-corporations which do not meet the 50 per cent criterion to the government sector or to the corporate sector, and when the latter option is taken, whether to value their output at prices actually paid with subsidy to cover the shortfall, or whether to value their output at cost and treat the cost not covered by sales as government consumption.

16. The participants presented some examples of producing units in their countries with features that should be taken into account in determining the criteria for

distinguishing between market and non-market producers and products: (i) a public enterprise with large deficits, its wage bill and parts of its other costs directly paid by the government; (ii) a public enterprise providing irrigation services to farmers: would the payments by farmers be treated as tax or as sales? (iii) a co-operative enterprise with individuals participating in its capital, whose profits are entirely paid out to its shareholders; (iv) a bank, following Islamic law, does not charge any interest. The main capital of the bank is foreign. The bank repays loans and deposits on the expiration date without interest payments. It uses the funds given to the bank to involve itself in commercial operations from which it obtains its revenues. Is it a bank or is it a trading corporation? (v) the statistical office in one country is a public corporation by law. However, its only sales are publications and those sales do not cover by far the cost; (vi) a government agency purchases the production of small farmers (e.g. coffee) and sells (in most cases, exports) that production on a wholesale basis. Is that agency a quasi-corporation?

17. In discussing the above examples, some further clarifications were obtained. In the case of payments that are clearly for the purpose of a service rendered, as in the case of (ii) above, the payment should be considered as a sale and not as a tax. Community services, including foreign-sponsored, non-profit organizations, should be treated as non-profit institutions to be included in a subsector of the household sector. The view was expressed that the distinction between market and non-market producers should be based on the objective of the producing unit in question. If it was profit-oriented, it should be classified as a market producer.

18. It was agreed that the distinction between market and non-market to describe producers and products was desirable and that the revised SNA should contain clear criteria for making that distinction. No definite conclusions with regard to these criteria were reached. However, the many examples cited reflected the variety of situations in different countries which had to be taken into account in drawing up the final criteria for the market versus non-market distinction in the SNA.

6. Financial intermediaries: bank and insurance services

19. A number of changes were suggested with regard to the output and distribution of output of financial intermediaries. In the case of banks, it had been proposed that bank output was a real output which could be approximated only by adding to actual bank service charges, imputed charges based on the difference between property income received and paid. In other words, the character of the imputation had been changed. Furthermore, it had been recommended that the imputed charges be allocated to users together with the actual bank service charges. The imputed service charge to be allocated to each sector would be the difference between interest received or paid on the one hand, and a reference interest rate on the other. The imputed service paid by each user would be deducted from the interest paid by bank borrowers and added to the interest received by depositors in order to arrive at a pure interest rate. The latter would be recorded as property income received and paid in the Appropriation of Primary Income Account.

20. In the case of insurance service charges, the expert groups recommended that property income on technical reserves be added in calculating the service charge. That recommendation was based on the recognition that premiums of insurance companies had been reduced in recent years, since those companies draw part of their revenues from investments of their technical reserves. As this is the case for life insurance and casualty insurance, it was recommended that the amendment be applied to both types of insurance service charges.

21. Participants agreed with the distribution of imputed bank service charges between sectors, which would imply that a treatment similar to that of the 1953 SNA would be reinstated in the revised system. However, the wish was expressed that more specific and practical guidelines be developed for selecting the appropriate reference interest rate that would be used as a key for the distribution of the bank service charges between sectors. It was also agreed that the 1968 SNA imputed insurance service charges be amended to take into account property income on technical reserves.

7. Imputation of rent on government buildings

22. There was a proposal by the expert groups to introduce into the revised SNA imputations for rent on government-owned buildings. That would effectively increase the contribution of the government sector to the gross domestic product (GDP), as it would introduce cost of capital into the calculation of output of government, which would be reflected in net operating surplus of that sector. That imputation would be in addition to another imputation recommended by the expert groups namely to introduce consumption of fixed capital on all government fixed assets, including government buildings, roads, dams and similar structures. In recording the imputations, two options were advanced by the expert group. One would be to add consumption of fixed capital and cost of capital on owner-occupied buildings to cost in the calculation of output of government services. The other option would be to create a separate establishment which would bring together all costs of government-owned buildings and would have building services as an output, which would be recorded separately from the output of government services.

23. In most countries, the operation of government buildings is managed by a specific department or ministry. Therefore, it would not be too difficult to identify the cost related to the operation of government buildings in case imputations for government buildings were made. In some instances the same ministry is also in charge of renting from or to others private buildings that were used by government agencies or government-owned buildings that were rented to others. There were questions on the valuation and classification of the imputed output of government-owned buildings. It was mentioned that it would be difficult to obtain realistic prices for valuing the imputed rents, and that it would be difficult to have a complete record of all government-owned buildings.

24. The imputation of rental services on government-owned buildings, had implications for the valuation of imputed building services output, the incorporation of cost of capital in the calculation of output of government services and the classification of government services. Participants felt that

further thought needed to be given to the conceptual and data implications on that point. Most participants agreed, however, that if imputations were made for the rental services of government-owned buildings, a separate establishment would have to be created.

B. Valuation

Valuation of final demand and value added

25. The three valuation alternatives for output were discussed as were the corresponding valuation of value added, the treatment of product taxes and the proposed valuation of intermediate and final uses in purchasers' values. Clarifications were requested in the presentation of the following issues: sequence of accounts, the supply and use framework, the relation between the proposed alternative valuations of gross output, the treatment of taxes linked to production and imports and the corresponding valuation of value added by kind of economic activity. Questions were raised concerning the relation between the present experiences of the participants, which were often referred to as using valuations in market prices and factor cost, to the valuations that were proposed for the revised SNA.

26. Most participants agreed with the flexibility in valuation of output which had been incorporated into the revised SNA, given that many countries had different fiscal systems which might not necessarily allow for observing the ideal valuation of gross output in basic values. Other participants wondered whether flexibility would not lead to reduced incomparability of data. It was pointed out that total GDP would not be affected; whatever valuation would be used for output and value added would only affect the activity breakdown of GDP. On the other hand, international comparability of GDP by activities would be optimal only if basic values are used, as such valuation would eliminate from the valuation of output and value added any incomparabilities that may be caused by different fiscal systems in different countries. Valuation in producers' values, whether in the absence or presence of VAT, even if used by all countries, would not result in data that would be strictly internationally comparable.

27. The meeting agreed on the incorporation in the revised SNA of three valuation alternatives for gross output and value added: (a) basic prices; (b) producers' prices in the absence of VAT; and (c) producers' prices in the presence of VAT. It was emphasized, however, that for the purposes of international comparability, alternative (a) would be preferable. Participants also agreed with the valuation in purchasers' prices of intermediate and final uses in the institutional sector accounts and the supply and use table.

C. Integration of stock analysis with the traditional flow analysis of national accounts

28. Concerning the valuation, classification and coverage of assets, it was pointed out that the asset question as a whole was as yet unresolved. Participants were urged to present their views so that they could be taken into account by the upcoming Expert Group Meeting on SNA Co-ordination to be held in December 1990.

1. Coverage, classification, moment of recording of assets and changes in assets

29. The revised SNA would distinguish at the first level of detail between non-financial and financial assets. Within the non-financial assets, a second level distinction would be made between produced and non-produced assets, and within each at the third level of detail between tangible and intangible assets. An innovation that had been discussed by the expert groups was to introduce into the system fixed assets that would be intangible but produced, including research and development, capitalized mineral exploration cost, computer software and literary artistic work. In the changes of assets, a distinction is made between gross capital formation, net purchases of land and other non-produced assets, other volume changes in assets and liabilities, nominal holding gains or losses, and changes in classification and structure (of assets and liabilities). The distinction between produced and non-produced assets is not necessarily the same between the classification of stocks of assets and the changes therein. One could have gross capital formation, which would not appear as an asset in the stock of assets, since it would be incorporated into the value of the land. Similarly, capital repairs are a category in gross fixed capital formation but do not show up as a separate asset in the stock of assets, as its value is incorporated in the value of the buildings or structures to which the capital repairs have been applied.

30. Discussion focused on the treatment of historical monuments, pre-investment or feasibility studies and on the coverage of buildings in fixed assets. It was explained that historical monuments may be incorporated in the system only when actual transactions take place. Pre-investment studies may be treated as part of capital formation, if they form an integral part of an investment project in the SNA sense. Buildings are to be included as fixed assets only if they had been sold; if not, they are treated as part of stocks (inventories).

31. The meeting did not arrive at a particular conclusion regarding the classification, valuation and moment of recording of assets. However, experts in the review of SNA were urged to take into account in the final recommendations how to deal with the asset question in SNA.

2. Mineral exploration

32. The expert groups recommended that expenditures on mineral exploration be treated as part of gross fixed capital formation, whether such exploration was successful or not. That would change the present SNA which included all such expenses as intermediate consumption. The meeting dealt with exploration expenditures and the treatment of mineral deposits as assets.

33. The meeting agreed that expenditures on mineral exploration were treated as capital formation, no matter whether the exploration was successful or not. No final conclusions were reached with regard to the incorporation of mineral deposits in the asset boundary of the SNA as there were still too many questions to resolve on valuation of these assets.

3. Environmental assets, including natural growth

34. Environmental assets fell into three main groups: natural cultivated assets, which are included under produced fixed assets, and land and subsoil assets, which are included under tangible non-produced assets. Natural cultivated assets included all products or animals for breeding, dairy, draught; timber tracts and cultivated forests; plantations (orchards, vineyards); fisheries. It was proposed that all such products of controlled or cultivated natural growth be recorded as output at the moment of growth. Output of such controlled natural growth processes was considered as work-in-progress, which added to changes in stocks and in some instances to gross fixed capital formation, such as in the case of the growth of animals for breeding, dairy and draught. The output value may be based on market values. With regard to agricultural output, it was argued that the proposed treatment could be replaced by an alternative one, in which information on the agricultural year would be included in the national accounts in a manner similar to the incorporation of financial information, which was incorporated in the national accounts on the basis of fiscal year data. In response it was pointed out that such treatment would not eliminate distortions in value added under high inflation circumstances.

35. Questions were raised concerning the treatment of severe losses due to draught between the growth and harvest. In response it was pointed out that such losses would be dealt with as other volume changes in assets (stocks of agricultural goods); if changes between growth and harvest would be value changes, they would be dealt with in the revaluation accounts. Both changes would also be reflected in changes in stocks. A question remained, however, as to what extent such changes were severe enough to be treated as other volume changes and when they would constitute part of the normal variation in output over the years and thus should be reflected in a negative adjustment to output. Participants felt that national parks, beaches and similar natural assets should be considered for incorporation into the asset boundary of the SNA. Those assets were an important basis for the tourist industry of the countries concerned, and any deterioration in those assets immediately had an effect on the tourist revenues of those countries. Also, national parks needed to be maintained; that was a clear cost to the country. Most

participants felt that since those assets generated revenues, they should be considered as part of the national wealth.

36. There was much support for basing agricultural output on the growth of agricultural products rather than on their harvest. However, more study is needed on how to value such output before a final decision could be taken. It was felt that the issues of coverage, classification and valuation of environmental assets were as yet unresolved. Experts in the SNA review were urged to explore further the inclusion in the asset boundary of the SNA of national parks, beaches and natural monuments, which were environmental assets important in the development of recreation and tourism. This study is necessary as these assets are clearly of a type that fell somewhere between natural cultivated assets, which should be treated as fixed assets, and virgin forests or animals living in the wild which were clearly assets outside the boundary of the SNA. Many felt that those assets could be considered as a part of the national wealth of countries.

4. Military durables

37. Military durables to be included in gross fixed capital formation are to be extended as compared with the 1968 SNA. It was proposed that all military equipment that could be acquired by civilian users for purposes of production and that the military actually used in the same way be included. All destructive military weapons would continue to be treated as part of the intermediate consumption of the production of government services and thus included in government final consumption expenditure.

38. Most of the participants seemed to prefer a wider definition of capital formation as concerned military goods. A number of examples justifying such an extension of capital formation were mentioned, such as roads and bridges that were built by the military but were used mainly for civilian purposes and military aircraft that were used for civilian purposes. Others suggested that instead of treating military expenditures as final expenditures added to GDP, they should be treated as cost or negative income, which would result in a reduction of GDP. The difficulty of obtaining reliable and detailed data with regard to military expenditures made it difficult to distinguish between expenditures to be treated as intermediate consumption and expenditures to be included in gross fixed capital formation.

39. It was agreed that all military equipment and other assets, such as schools and hospitals, which could be acquired by civilian users for the purposes of production and which the military would normally use in the same way, should be classified under capital formation.

D. Transfer of resources between countries

40. Regarding to the external account of SNA, it was pointed out that many of the changes proposed were made in order to align SNA and the Balance of Payments Manual. 1/ In some instances, the changes constituted a change or adaptation both in the SNA and/or the Balance of Payments Manual.

1. Residence: individuals, enterprises, international organizations, foreign control of enterprises

41. The basic principle of residence would assign residence to units on the basis of their centre of interest. That principle was worked out by the expert groups in operational terms for individuals, enterprises and international organizations. It was recommended that residence in a country for one year would be sufficient for an individual to be considered resident of a country, with the exception of students, who were proposed to be treated as residents of their country of origin. It was recommended that enterprises be treated as residents if the purpose of the production unit was to carry out production in a country on a significant level over a longer period of time (one year or more). The one year rule should be applied in a flexible manner, however, particularly in the case of construction activity undertaken abroad. Generally not included as residents are operators of mobile equipment, ships' flags of convenience of the country in question, or enterprises engaged in installing equipment abroad. International and regional organizations remain treated as extra-territorial units as in the present SNA.

42. An example of jointly owned and/or operated facilities was presented: a dam for the generation of electricity was jointly owned and operated by three countries. It was constructed by an enterprise which does not have a legal residence in any one of the three countries. The dam was located in the territory of one of the countries, but its construction had involved workers and materials from all three countries and from other countries as well. Participants discussed the residence of the company which had built the dam and the residence of the company subsequently operating the dam; they analysed the effect of such residence on the allocation of capital formation among the three countries and on the exports and imports of each country. In a further discussion on residence, it was asked why students were considered as residents of their country of origin if they received most of their income from foreign grants and also spent those grants in a foreign country.

43. There was general agreement on the principal resident criterion based on the concept of centre of economic interest, to be applied to individuals, enterprises and international organizations, as proposed by the expert groups in the SNA review. However, the experts were requested to provide further guidelines with respect to the residence of students in the case of individuals, and also with regard to enterprises jointly operated by countries.

2. Exports and imports of goods and services

44. A number of modifications were proposed with regard to the treatment of exports and imports of goods and services. Goods sent for processing abroad would be treated gross and included in exports and imports if there were significant changes in the characteristics of the goods as a result of the processing. Goods shipped between a parent company and its foreign subsidiary would be treated as if they had changed ownership, and therefore were to be included in exports or imports. Repairs, if applied to capital goods, would be treated as foreign trade in goods. Direct purchases abroad by residents and direct purchases by non-residents in the domestic market would be treated as imports and exports, respectively. The aggregate of imports would be valued FOB, but when dealing with the details of imports in a supply and use table or input-output table, CIF valuations would continue to be used, and an adjustment item would be included to link the two valuations of imports. The appropriateness of including direct purchases abroad by residents and direct purchases in domestic market by non-residents in imports and exports, respectively, was discussed. Some thought that such a change in the SNA could not easily be implemented, since product detail was lacking in those direct purchases.

45. The difficulty that countries faced in the combined use of customs data based on physical movement and balance-of-payments data, which are based on recording transactions in monetary terms, was mentioned. More attention should be paid by the expert groups to links between the SNA and foreign trade statistics, in addition to the links between SNA and the Balance of Payments Manual.

46. At the meeting, it was suggested that the expert groups reconsider the proposed inclusion of direct purchases abroad by residents as imports and in the country by non-residents as exports. It was agreed that change of ownership should be the primary guide for recording merchandise transactions and noted the proposed changes in the SNA and Balance of Payments Manual with regard to the gross treatment of goods for processing abroad and the treatment of repairs on investment goods, as goods. No conclusions were reached, however, on the change in the valuation of imports from a CIF valuation in the 1968 SNA to a FOB value in line with the treatment in the Balance of Payments Manual.

3. Reinvested earnings

47. The proposed introduction of reinvested earnings into SNA would harmonize SNA with the present treatment of balance of payments. The reinvested earnings would be introduced as part of property income paid/received in the external sector and, at the same time, would be reflected as an increase in foreign assets/liabilities. It was noted that such imputed flows could easily be identified in the accounts as re-invested earnings and would be presented as a separate item in the external account.

48. The meeting endorsed the proposed introduction of reinvested earnings.

4. Valuation of external transactions

49. It is generally agreed that transactions carried out in a foreign currency should be converted to local currency on the basis of the actual exchange rate used in the conversion. There was a proposal to treat revenues obtained as a result of exchange rated differentials as a bank service charge if it concerned a normal difference between the purchase and sales price of foreign currency, as a capital gain or loss if revenues were obtained as a result of increases over time in the foreign exchange rate, and as a product tax in the presence of a multiple exchange rate system whereby the Government or central bank would obtain the exchange rate differentials. There had been no agreement yet on how to treat the exchange rate differential if it was received by black market or parallel market dealers in foreign exchange.

50. The expert groups further proposed that the average between buying and selling rates of exchange be used to convert transactions in foreign currency domestic currency, and that the implicit bank service charge obtained in trading foreign currencies be incorporated in the value of the external transactions and their domestic counterparts. Exchange rate differentials that are treated as product taxes/subsidies should not be incorporated in the external and counterpart domestic transactions on which they are assumed to be levied. Instead, they are presented as global adjustment items in the external account. A unitary rate of exchange is used as a basis for the allocation of exchange rates between different taxes. The unitary rate is used in computing the difference between the actual exchange rate of each transaction and the unitary rate, thus allocating the taxes or subsidies among product, income and wealth taxes that are presented as global adjustments in the external trade account, the external transactions accounts and the capital account of the external sector.

51. The discussion focused on the revenues obtained as a result of considerable differences between the black market exchange rate and official exchange rates. The distortion that occurred in the calculation of GDP when nearly all imports are obtained on the basis of a high parallel market exchange rate was mentioned; most exports are traded on the basis of a much lower official rate of exchange in terms of local currency. The difference between the two would have to be reflected in revenues by parallel market exchange rate dealers, whose revenues were probably underestimated in the calculation of GDP.

52. It was pointed out that GDP was affected not only by the large differences between official and parallel market exchange rates but also by changes in the terms of trade, when import prices in terms of foreign currency were increasing faster than export prices in foreign currency. Those terms of trade effects would have to be reflected in GDP at constant prices in order to arrive at real GDI. Some participants saw difficulties in the application of a unitary rate. Others felt that instead of global adjustments in the external account, implicit taxes and subsidies affecting sectors of the economy differently would have to be made explicit.

53. The meeting did not arrive at a particular conclusion regarding the valuation of external transactions. In view of the importance of the difference between the

official and parallel exchange rates in most countries of the region, the expert groups were urged to consider further the treatment of the parallel market rate in the valuation of transactions and in the generation of income.

E. Analysis of inflation

54. Due to time constraints, the discussion of constant price accounting was restricted to two main issues - chain indices and the revaluation of changes in stocks. Many other issues related to constant price accounting were not discussed.

1. Chain indices

55. The question was raised whether fixed-base Laspeyere volume indices would need to be replaced or supplemented by chain indices with moving weights which would change from year to year. The expert groups suggested that the annually chained indices be presented as supplements to the fixed-base volume indicators.

56. Some participants thought that chain indices were preferable to fixed-base indices in times of inflation. Others thought that chain indices would have all the disadvantages of fixed-base indices when the latter were using abnormal base years. Others thought that updating the weights of indices would be an impossible task as statistical offices would not carry out annual surveys in various sectors of the economy which would be needed to permit such re-weighing of the indices. Furthermore, survey results became available after many delays, which would forfeit the purpose of the chain indices which, on the contrary, should be as recent as possible. It was mentioned that the annual weights of price indices in general would have to be well stratified by region and population groups in order to make the chain indices useful for analysis.

57. The meeting concluded that there were advantages and disadvantages to any type of volume index, and that the revised SNA should therefore be flexible and include alternative index measures. Countries could then choose which one would best suit their particular analysis and circumstances.

2. Revaluation of changes in stocks, including work-in-progress

58. Changes in stocks may be approximated under non-inflationary conditions by two methods which yield approximately the same result: (a) calculation of the difference between the opening and closing stocks in volume terms and application of an average price to arrive at the changes in stocks in current prices; (b) calculation of changes in stocks as the difference between ingoing flows and outgoing flows valued at the prices at the time they occurred. In situations of high inflation, however, the two methods give different results because there are considerable differences in the second method between the value of ingoing flows and outgoing flows. In other words, under situations of high inflation, changes in stocks should not only reflect volume changes but also price changes that occur between the moment that goods enter stocks and the moment they leave. As a matter

of fact, changes in stocks under such circumstances could be negative because the goods withdrawn have a much higher price than the goods entering the stocks, not because there are negative volume changes in the stocks.

59. In a similar manner, changes in stocks would reflect price changes over time in the case of work-in-progress on large equipment and construction that would take a long time to complete. Output representing part of the work completed would have to be entered into stocks at the price at the moment the output was generated and, thereafter, periodic price changes would have to be included in the revaluation accounts. Once the equipment or building is completed and entered as gross fixed capital formation, it should be taken out of the stocks at the value prevailing at the time of completion. This treatment implies that changes in stocks would also reflect the differences between the price at which work-in-progress was valued at the moment it was entered into stocks and the final value of the equipment or building once it was completed and recorded as part of capital formation.

60. A question was raised with regard to price changes in agricultural products that were entering and leaving stocks. There may be seasonal price changes that fluctuate over time. It was suggested that they may not have to be reflected in the changes in stocks. There could also be different movements of prices between inputs and outputs and of agriculture. Care should be taken not to eliminate those price changes from the calculation of value added in agriculture.

61. The meeting agreed with the methods developed by the expert groups which would eliminate price changes of goods between the moment that those goods entered and left stocks from value added. Participants supported the proposals that those prices be reflected in changes in stocks in addition to the volume changes in those stocks.

F. Role of the household sector

62. The meeting was pleased that many of the aspects of the household sector had been extensively considered by the expert groups, as it was an important sector in African economies.

1. Breakdown of households by socio-economic groups

63. It was proposed that the revised SNA should include two main subsectors in the household sector: households (excluding non-profit institutions serving households) and non-profit institutions serving households. A main breakdown of the households was proposed to be based mainly on source of income criteria (employees, employers, own account workers, and recipients of transfers and property income). Alternative breakdowns would also be included in the system but would be used only for special analysis of the household sector.

64. Participants were of the opinion that classifications other than those based on source of income would have to be used as the basis for a further breakdown of households within that sector. They argued that the reference person and several

members of the household might have different sources of income. For example, a civil servant (employee) might at the same time be an employer running his own business, while a recipient of property income might at the same time be a wage earner. An example of an alternative classification used in one of the countries distinguished between civil servants and trade and crafts people, and in another example, international experts and embassy personnel were included in a separate category.

65. It was concluded that countries may adopt extra breakdowns of households that would suit their national analytical and policy needs, but those breakdowns would have to be consistent with classification principles applied elsewhere in the system.

2. Formal and informal sectors

66. The distinction between formal and informal sectors is one that is made between units within the household sector and applied to all their accounts. The distinction will be included in the SNA, but still there is no agreement on the criteria for making the distinction.

67. Some participants were of the opinion that the informal sector could be defined in a negative manner by excluding from the total of all production units those that were clearly belonging to the formal sector, that is, non-financial and financial corporations and possibly some others. Others suggested that the informal sector should be equated with the total of all private unincorporated enterprises that were included in the household sector. In response it was pointed out that even within the private unincorporated sector, there might be units that were small but clearly not belonging to the informal sector. A more difficult problem was to obtain data on the informal sector and implicit in these suggestions was the assumption that the informal sector would be confined to those units for which it would be difficult to obtain data. It was suggested that the informal sector be defined on the basis of technology used, staffing, and so on. It was mentioned that the distinction between formal and informal might not be applied to all accounts and transactions but only to a selected set of data, such as mixed income.

68. In concluding, participants urged the expert groups to develop an internationally acceptable definition of the informal sector, because the distinction was an important one both for the African region and for all developing countries.

3. Non-profit institutions and community activities

69. There were three issues regarding non-profit institutions on which the present meeting should give its views. The first one was the recommendation that there should no longer be a separate sector for non-profit institutions serving households as in the 1968 SNA. The second issue concerned the criteria on the basis of which non-profit institutions were allocated to the household, government

and corporations sectors. The expert groups recommended that all institutions financed and controlled by the government be included in the government sector and the remaining ones be allocated to the household and enterprise sectors on the basis of which sector they served. The third issue concerned the treatment of communal production activities leading to the construction of buildings, schools, roads, and so on. The expert groups had recommended that that output be considered as an output of non-profit institutions, and that if output was capital goods, that it should be included with capital formation of the sector responsible for the upkeep of those capital goods.

70. Participants commented on the proposed incorporation of non-profit institutions serving households as a subsector of the household sector. Participants from francophone countries found that solution particularly difficult to accept, as non-profit institutions in their countries (administrations privées) often carried out functions that were close to those of government and were not directly serving households.

71. From the discussion it became clear that churches and religious organizations would be considered as non-profit institutions, even though the government provided most of the finance. The same would apply to political parties, as long as they did not constitute the main element of the government. Participants commented on the valuation of free labour that was used in the construction of roads, buildings and so on. In one country such activity was even organized officially, and local law required citizens to contribute voluntary labour at least one day a week or otherwise make monetary contributions to such communal construction activities. Most participants suggested that a cost should be imputed for the use of the voluntary labour.

72. Some questions were also raised about the allocation of the capital goods to the sector that would be responsible for its upkeep. It was felt that such capital goods would be included with capital formation of the sector that was also responsible for the construction of the schools, roads and other buildings.

73. The meeting urged the expert groups to come up with clear guidelines for the valuation of voluntary labour used in the construction of public assets. It further asked them to reconsider the criteria of finance and control that were used to allocate them to the government sector.

4. Consumption expenditure, actual consumption and disposable income

74. In presenting the sequence of accounts, there was a proposal to include in the revised SNA two consumption concepts for households and government. One concept, called final consumption expenditure, would refer to payments made by households and government for items of consumption. The second concept, called actual final consumption, would include with households those expenditures made by government that could be individualized, such as education and health, while other final consumption expenditures by government of a collective nature would remain in the actual final consumption of the government sector. The distinction between

individualized consumption and collective consumption paid for by the government would be made on the basis of the categories established in the Classification of the Functions of Government. 2/ Two alternative income concepts - disposable income and adjusted disposable income - correspond to the two consumption concepts for the two sectors. The difference between the two would be transfers in kind from government to households, which would constitute the difference between actual final consumption and final consumption expenditure of households. The total of final consumption expenditure and actual final consumption of households and government together would be the same. Also, disposable income minus consumption expenditure and adjusted disposable income minus actual final consumption for households and government would give the same savings for each sector.

75. Questions were raised concerning the difference between household and government final consumption expenditure and actual final consumption by households and government. Other questions concerned how transfers in kind would be added both to consumption and income in order to arrive, respectively, at actual final consumption and adjusted disposable income without having an effect on the concept of saving in the two sectors. The point raised was that if income were increased by reimbursements for expenditures incurred during previous periods, such reimbursements could add to savings in that period if the reimbursement were not actually spent. A numerical example was given to illustrate the fact that savings were the same in both cases. Further interventions focused on how to treat government transfers that were aimed at lowering the price of goods used for private consumption purposes. Some participants felt that those transfers should be treated as transfers to households rather than as subsidies paid to producers. If treated as subsidies, they thought that that would understate actual household consumption.

76. Participants generally agreed with the incorporation into the system of the two consumption concepts. The meeting concluded that in dealing with expenditures by government that reduced the price of goods included in household consumption, it would be preferable to identify those expenditures as transfers to households rather than as subsidies to producers.

G. Role of the public sector

77. Because of time constraints, only one issue was dealt with - the distinction between public corporations, "departmental" enterprises and private enterprises.

Public enterprises versus unincorporated government enterprises and private enterprises

78. Public corporations include public quasi-corporations. The feature that distinguishes public quasi-corporations from unincorporated government enterprises (known as departmental enterprises) is that they keep full accounts and withdrawals from entrepreneurial income can be identified in those accounts. In public corporations the government owns more than 50 per cent of the equity or exercises control over their economic behaviour even if it owns 50 per cent or less of the equity.

79. One participant asked if the availability of complete accounts was a necessary condition. He gave many examples of public corporations that had not published their accounts for several years. In spite of that, he felt that those entities, which were corporations by law, should be considered as public corporations, even though they did not present complete accounts. Other examples of "public" enterprises included the following: (a) ones in which the government held more than 50 per cent of the capital together with foreign investors, but where the foreign investors controlled the day-to-day operations of the enterprise; (b) enterprises taken over from foreign investors and legally transferred into the hands of the workers; the government, however, provided all the capital that was needed to withdraw the foreign interests; (c) a political party operating an enterprise, while the political party itself was financed for more than 50 per cent of its funds by the government.

80. In all those cases, it would normally be assumed that the enterprises in question were private, even though the mechanical criterion of majority finance would classify the entities as public corporations. In the case of the political party running an enterprise, there was also the question of whether that political party, mainly financed by the government, was part of the government sector or whether it was a private, non-profit institution serving households. The question was raised in the latter case whether another exception - political parties and churches - should be made to majority finance and control as decisive criteria for the allocation of NPI's between the household sector and the government sector (see also paras. 83-89). It was noted that the 50 per cent rule should be used as a rule of thumb and should not be applied in a rigorous manner.

81. Based on the examples of institutions, which were financed for more than 50 per cent by government-controlled funds, but could not be considered as being either public corporations or part of general government (churches, political parties, some "public" enterprises controlled by foreign or private interests), participants urged the expert groups to reconsider the control and finance criteria used to separate public corporations and non-profit institutions from general government.

II. SNA REVIEW FROM THE AFRICAN POINT OF VIEW

82. The background document for this discussion was "Summary of main recommendations and conclusions emanating from regional working groups and seminars in national accounts held in Africa in the period 1985-1988". The secretariat of the Economic Commission for Africa (ECA) recalled that during the period 1985 to 1988 the following meetings were held under the sponsorship of the ECA and the member States concerned: (a) Training Workshop in National Accounts (Addis Ababa, 30 September to 11 October 1985); (b) Seminar on the Review of the United Nations System of National Accounts (Addis Ababa, 29 November to 3 October 1986); (c) Working Group on capital formation and national accounts at constant prices (Addis Ababa, 28 September to 2 October 1987); (d) Working Group on improving the basic economic statistics required for planning purposes (Addis Ababa, 19-23 September 1988).

83. It was noted that the majority of the recommendations on the SNA review were made at the regional seminar held in 1986, while the other meetings dealt mostly with basic economic statistics. The secretariat further noted that a number of the proposals made by the African region had been, or were in the process of being, implemented in the review exercise, while several others, which had a bearing on the special circumstances and needs of the developing countries and statistically less developed systems, remained to be adopted or implemented.

84. It was noted that the following were among the recommendations which appeared to have been taken into account in the revised SNA:

Structure of the revised SNA

(a) The revised SNA should apply equally to all countries; there should not be a separate chapter on developing countries in the revised SNA;

(b) The structure of the SNA should remain broadly unchanged; production accounts for institutional sectors should be included; guidelines should be given in handbooks, the operations of the institutional sectors should be arranged in a sequence of accounts explicitly linked by balancing items; the SNA should be harmonized with other statistical systems (standards); retention of the T-Accounts;

Transactors of the SNA

(c) Retention of dual sectoring; the distinction between public and private enterprises should be based on ownership (more than 50 per cent of shares) and control;

Transactions of the SNA

(d) Estimation of consumption of fixed capital in respect of roads, bridges etc; retention of the basic concept of the production boundary as defined in the 1968 SNA with minor amendments or inclusions, for example, the inclusion of illegal and other activities if it is felt that their contribution to GDP is significant.

85. In the discussion that followed, participants recommended that the seminar express its appreciation to the Intersecretariat Working Group on National Accounts and all concerned for the attention given so far to the recommendations from the African region.

86. It was noted that the aim of the revised SNA was to present a system that was conceptually sound and one which could be applicable universally. Nevertheless, further attention should be given to some of the special concerns of the developing countries and less developed statistical systems. It was further noted that it would be rather difficult for priorities to be treated in the revised SNA (they were perhaps better addressed in the Handbooks, for example, the planned "Handbook on Enterprise Accounting" as priorities could differ from one region to another and from country to country. However, that was not to say that some concerns of developing countries would not be taken into account in the revised SNA. One such concern that was being discussed and that was of particular interest to developing economies was that of multiple rates of exchange.

III. IMPLEMENTATION OF THE REVISED SNA

87. There was much discussion on the implementation of the SNA, and many interesting ideas were presented. The issues raised concerned education of national and international experts in the application of the revised SNA, the preparation of Handbooks that would guide national experts in the use of the system, the development of a compilation methodology using microcomputers, the further improvement of basic statistics and survey methodology, bilateral and international technical assistance, and finally, the funding of all those efforts that would support the implementation of the revised SNA.

88. Several participants stressed the importance of the Handbooks being made available to national accounts experts as soon as possible. Two Handbooks were mentioned in particular in that discussion, the Handbook on National Accounts Compilation and the Handbook on Enterprise Accounts. The latter was thought to be important as a means of developing an intermediate system of enterprise accounts which would act as a channel through which the information obtained from the diverse systems used in business accounting could be processed for use in national accounts.

89. Interest was also expressed in the national accounts compilation methodology developed by the Statistical Office of the United Nations Secretariat. The Statistical Office representative was asked to forward documents on that methodology to participants. He mentioned that those documents would be incorporated in a Handbook on National Accounts Compilation, the first draft of which is expected to be available at the beginning of 1991. The representative pointed out that the development of Handbooks required the expertise of national accountants in individual countries and that therefore the Handbooks would not become ready-made prescriptions for national accounts compilation, but would be sent, over time, as drafts to experts in different countries in order to obtain their comments; in the end they would reflect a rich variety of different country situations.

90. Participants also stressed the need to hold workshops that would permit explanation of the revised system in a more detailed manner than was possible during the four days of training sessions prior to the present meeting. It was suggested that two workshops be held in the African region prior to the completion of the revised SNA in 1993 and that subsequent to the finalization of the SNA - possibly in 1995 - a seminar should be held which would review the experiences of countries with the revised SNA. One participant mentioned that it was essential that in such workshops IMF experts and country experts working in statistical areas related to IMF systems (e.g. central bank staff) would participate in order to establish the link between the SNA and those systems at the national working level.

91. The representative of the ECA secretariat pointed out that funds for workshops might be available through the Statistical Training Programme which is carried out with the help of 15 statistical training centres in Africa.

92. Some participants stressed the need for the Statistical Office to be responsive to correspondence from developing countries' national accountants who

would ask written advice in specific areas related to the implementation of the system. The Statistical Office could co-ordinate responses to such requests by sending them to different experts for response. It was also suggested that the Statistical Office send conceptual questionnaires to countries in order to evaluate the experiences obtained in each country with the revised system. Participants were urged to respond to such questionnaires in as comprehensive a manner as possible. The Statistical Office representative pointed out that contact with national experts in national accounts would be very desirable but could only be handled by the Statistical Office if that were done in close co-operation with ECA.

Notes

1/ Washington, D.C., International Monetary Fund, 1977, 4th edition.

2/ United Nations publication, Sales No. E.80.XVII.17.

Annex I

LIST OF PARTICIPANTS

Cameroon	Irénée Taboué, Ministère du Plan et de l'aménagement du territoire
Côte d'Ivoire	G. Doffou N'guessan, Ministére du plan et de l'industrie
Egypt	Mohamed Salah Abd El-Hamed Farag, CAPMAS
Gambia	Alieu S. M. Ndow, MEPID
Ghana	Kwadwo Addomah-Gyabaah, Ghana Statistical Service.
Guinea-Bissau	Issufi Sané, Direction générale de la statistique
Guinea	Sekou Dioubate, Direction générale de la statistique et de l'informatique
Equatorial Guinea	Roberto Lobede Mell, Ministerio de Planificacion y desarrollo economico
Kenya	P. Kallaa, Central Bureau of Statistics L. A. Ojiambo, Central Bureau of Statistics
Madagascar	Ranivoharisoa Lanto Harivelo, Banque de données de l'Etat
Malawi	S. W. K. Mkandawire, National Statistical Office
Nigeria	J. Oladoye, Federal Office of Statistics
Niger	Tassiou Almadjir, Direction de la statistique et de la demographie
Rwanda	Innocent Nyabyenda, Ministíre du Plan
Senegal	Daouda Diarra, Direction de la Prévision et de la Statistique
Swaziland	Isabela Hlophe, Central Statistical Office
Tanzania	Peter Ndimila, Ministry of Planning and Economic Affairs
Togo	Kofi Dalaedem Achoribo, Direction de la Statistique
Zaire	Muhindo Gyenano, Institut national de la statistique
Zambia	Ackim T. Here, Central Statistical Office
Zimbabwe	Robert Tendere, Central Statistical Office

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United Nations Secretariat

Statistical Office of the United Nations Secretariat	Jan van Tongeren André Vanoli (consultant)
Economic Commission for Africa	F. Adrianasolo A. E. Cummings-Palmer K. C. Wang S. Traore E. F. Ching'anda A. P. Ngwako

United Nations bodies

United Nations Development Programme, Regional Liaison Office	Sosena Demessie

Specialized agencies

Food and Agriculture Organization of the United Nations	J. Hotakhanh

Other intergovernmental organizations

African Development Bank (Harare)	Amsale Mekasha
Economic Commission of West African States	A. Adjogou

Annex II

DOCUMENTS

1. "System of National Accounts (SNA) review issues", prepared by the Intersecretariat Working Group on National Accounts for the 1990 Regional Commissions meeting on SNA

2. "Summary of main recommendations and conclusions emanating from the regional working groups and seminars in national accounts held in Africa, 1985-1988"